

BC's Electric
Transmission
System: Investing
for our Future

2006 Annual Report
April 1, 2005 to March 31, 2006

A safe and reliable transmission network is the backbone of British Columbia's electricity system and is crucial to delivering low cost electricity. Through a commitment to excellence, innovation and cooperation, British Columbia Transmission Corporation (BCTC) works to meet the electricity needs of British Columbians and ensure our customers have access to transmission services today and in the future.

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Highlights

BCTC achieved significant milestones in Fiscal 2006:



High-voltage transmission towers
are a key part of the
Energy Network.

- Improved our core Open Access Transmission Tariff that improves opportunities for more parties to use the transmission system and to make more effective use of our existing assets.
- Created Dynamic Scheduling, a scalable service that creates new market opportunities for our customers by opening access to markets they previously were not able to participate in. This past year, Dynamic Scheduling generated \$6.8 million in revenue.
- Created a new Transmission Expansion Study to guide BCTC's role as a driver of transmission development.
- Expanded and enhanced our open and transparent public involvement process that ensures British Columbians are informed and actively involved in discussions about major transmission initiatives. More than 100 stakeholder and First Nations meetings and events took place during the year.
- Advanced the System Elected Metering Study to beginning site preparation and the design of the Energy Management System.
- Received the Canadian Electricity Association's Award of Recognition of our safety performance for a second consecutive year.
- Completed a multi-year labour agreement with the Canadian Union and Professional Employees' Union.

Financial Highlights

	Fiscal 2006	Fiscal 2005
Income Statement		
Revenues	\$ 205.1	\$ 194.6
Operating/Marketing and Administrative Expenses	157.2	151.8
Net income	47.9	42.8
Capital Expenditures		
Assets owned by BCTC	21.4	23.3
Transmission assets owned by BC Hydro	123.7	122.1
Balance Sheet		
Total assets	189.8	193.2
Debt	89.8	87.4
Shareholder's Equity	99.9	105.8

Message from the Chair to the Minister Responsible

In our third year of operations, BCTC continued to make significant strides towards the renewal and expansion of British Columbia's transmission system. We are continuing working hard to BC's economy, and BCTC has continued to play an integral role in helping the province meet its high potential, as well as enhancing our customers' overall service experience.



Bill Johnston
Chairman of the Board

Fiscal 2006 was another strong year for BCTC, marked by the achievement of significant milestones for the company. In 2006, we expanded and enhanced the services offered to customers. We completed the implementation of the Open Access Transmission Tariff and, through that process, streamlined our business processes and widened the suite of services for generators, industrial customers and other market participants, so that new opportunities are available for existing and future customers.

BCTC also made great use of key capital projects. After completing an extensive public and internal review process, BCTC submitted an application to our regulator, the BC Utilities Commission (BCUC), for a transmission expansion project that will ensure future electricity needs are met for key power loads and the Southern Gulf Islands. Last year, BCTC also initiated projects to improve overall reliability in other rapidly growing areas of the province, including the Fraser Valley, Whistler and Port St. John. In addition, BCTC advanced plans to consolidate the five central control areas into two new control facilities.

Our financial performance in Fiscal 2006 reflected the first full year of operations as a Crown corporation, independent of BC Hydro. BCTC earned \$11.6 million of net income, compared to \$2.4 million in the previous year.

Our operational performance in Fiscal 2006 also continued to be strong. In Fiscal 2006, we achieved four of the six corporate performance targets established for the year, continuing a trend of positive performance in the areas of maintaining system reliability, ensuring the highest level of employee safety, operating our business in a financially prudent manner and building positive relationships with stakeholders.

During the fiscal year, BCTC encountered challenges that affected our ability to achieve the environmental performance target. BCTC fully intends to improve all our environmental performance in coming years and, to ensure this, has commissioned independent audits of the Environmental Management System to ensure the right systems are in place. Employee engagement has remained stable over the past three years, although we did not achieve the substantial engagement target we had set for the organization. Over the coming year, we will focus on taking actions in order to increase employee engagement levels.

In the process of developing our plans and advancing initiatives, we listened carefully to customers, First Nations and stakeholders to build knowledge and understanding of their specific interests. Working to find a balance between the requirements of important provincial infrastructure projects and the private property interests of communities is not easy, but we are committed to working hard to ensure all voices are heard and considered as we continue our job of renewing and expanding the transmission system that BCTC manages.

Ensuring BC continues to enjoy the reliability and economic benefits that come from regional connections was a priority for BCTC last year. In the past, the province supported the creation of a regional entity known as Grid West, intended to be an independent, non-profit regional transmission organization for the Pacific Northwest electricity grid. In Fiscal 2006, the regional utilities and entities collectively voted to dissolve Grid West. Moving forward, rather than broad market restructuring, BCTC will continue to pursue the benefits of regional integration with more focused initiatives with neighbouring utilities in Alberta and the US.

I would like to acknowledge the efforts of our employees and the cooperation of our unions during this year. Since 2002, BCTC has managed more than 18,000 kilometers of high-voltage lines, confirmed 100,000 requests from customers and conducted over 100 studies for generators looking to interconnect to the transmission system. Our employees have admirably met the challenge of operating and maintaining a large transmission system and executing an extensive capital plan. At the end of the year, BCTC was able to join with the Canadian Office and Professional Employees Union to successfully reach a new multi-year collective agreement. The company continues to prepare for the reality that a number of employees are reaching the end of their working careers. Moving forward, BCTC will continue focusing on succession planning and leadership development to help BCTC sustain the skills and resources needed to fulfill our mandate.

BCTC is well-positioned for rapid growth in the future, and BCTC plays a key role in helping the province meet its full potential. BCTC's strategic direction was refined this year, and reflects a further understanding of the needs of our shareholder, customers, First Nations and stakeholders. As we establish the company as a fully operational Crown corporation, independent of BC Hydro, we are continually improving our measures to provide greater clarity and focus in achieving important objectives. We are working closely with industry associations that will allow us to improve performance relative to industry peers.

Looking to the future, BCTC's 50-year, 10-year Transmission System Capital Plan contains more than 700 projects and annual programs to maintain, enhance and expand the existing facilities. We have a highly capable management team in place, supported by a team of knowledgeable and innovative employees. I am continuously impressed by the team's dedication to serve in the best interests of all electricity users that depend on our services.

The Fiscal 2006 British Columbia Transmission Corporation Annual Report was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act*. The Board is accountable for the contents of this report, including the selection of performance measures and how the results have been reported. The information presented reflects the actual performance of BCTC for the 12 months ended March 31, 2006. All significant decisions, events and identified risks, as of May 8, 2006, have been considered in preparing this report.

The information presented is prepared in accordance with the BC Reporting Principles and represents a comprehensive picture of our actual performance in relation to our service plan. The measures presented are consistent with BCTC's mission, goals and objectives and focus on aspects critical to the organization's performance.

The Board is responsible for ensuring internal controls are in place to ensure performance information is measured accurately and in a timely fashion.

This report contains estimates and interpretive information that represent the best judgment of management. Any significant limitations in the reliability of data are identified in the report.



Chair of the Board

Organizational Overview

BC's Transmission System

The Backbone of the Electricity System

BC's transmission system is the high-voltage electricity grid that links all the power generated in British Columbia.

Our system is the largest in the world, both in size and in range of use.

- It has the highest voltage power lines, underground and submarine cables.
- It carries most power.
- It carries most power.
- It carries most power.



BCTC's Important Role

BCTC manages the transmission system by operating, maintaining, planning and expanding the transmission assets. BCTC manages the system on behalf of BC Hydro, which owns the transmission assets. BCTC's role is to ensure fair and open access to the electricity grid and create value and new opportunities for customers and stakeholders to provide safe, reliable and cost-effective transmission services. As BC's population grows, new industries emerge and demand for electricity increases, investing in our transmission system is more important than ever. BCTC's job is to ensure we invest in the system so that it continues to provide the service customers depend on.

Meeting the Challenge

BC's transmission infrastructure stretches across 75,000 hectares of rights-of-way and travels through mountainous terrain, forest, vegetation and challenging climate. BCTC removes over 60 million individual pieces of vegetation each year that grow around the transmission system to ensure we can deliver safe, reliable power to customers.

Each year, BCTC spends approximately \$200 million to maintain our system. Repairing it today would require an investment of approximately \$33 billion.

Enhancing our System through Innovation

BCTC is enhancing the capability of the transmission system through innovative approaches. Technological systems, weekly completed contracting processes and new work methods are improving the reliability and capability of our service while lowering costs.

Our Link to Opportunity

For more than three decades, BC's transmission grid has been linked with Alberta and the Newfoundland MG. Two 500 kV lines and one 600 kV line connect BCTC to Alberta. In addition, two 500 kV lines and two 230 kV lines connect our system to the US.

Transmission interties strengthen the reliability of the system, through sharing of resources and emergency assistance, and provide access to markets for both buying and selling electricity.

BCTC believes that the BC grid works effectively with our regional counterparts and neighbouring systems, while ensuring BC's sovereignty is maintained.

Mandate and Enabling Legislation

In 2003, the Province of British Columbia established BCTC under the *Company Act* as a Crown corporation responsible for operating, maintaining, planning and expanding BC Hydro's high-voltage electric transmission grid. BC Hydro continues to own the transmission assets. BCTC owns the control centre assets, which are required for operating and controlling the transmission system.

BCTC's mandate is to provide open and fair access to BC's electric transmission system, facilitate private generation investment in BC and maintain access to the Western North American wholesale electricity market. Our independence facilitates a more robust electricity industry.

BCTC is a direct outcome of the provincial energy plan, *Energy for our Future: A Five-Year Plan*, which was legislated under the *Transmission Corporation Act*. A series of five Key Agreements, with BC Hydro, designated by Order-in-Council in November 2003, also ensure long-term planning processes are coordinated and meet the requirement to deliver reliable, low cost power in the province. An overall Master Agreement sets out our roles and responsibilities. In addition, a Transmission Operating Agreement, Asset Management and Maintenance Agreement, Asset Lease Licence and Transfer Agreement, and Support Services Agreement are also in place.

BCTC's shareholder is the Province of British Columbia, and BCTC reports to the Minister of Energy, Mines and Petroleum Resources. A 10-member Board of Directors, appointed by the Shareholder, oversees the corporation.

A Shareholder's Letter of Expectations between the Minister and BCTC's Board Chair sets out the corporate mandate, high level performance expectations, strategic priorities and the respective roles and responsibilities of the Shareholder and BCTC. Throughout the year, the Board Chair, President and CEO and Board of Directors engage and inform the Minister on key developments affecting BCTC. The letter is also the basis for the development of BCTC's service plan for Fiscal 2016.

BC's core business responsibilities and services include:

- The transmission system for electric transmission within BC;
- Operation of the transmission system, including real-time operation of transmission, generation, distribution and interconnection systems and transmission scheduling;
- Development of various (under the Open Access Transmission Tariff (OATT)) including all aspects of the regulatory process: load administration and customer relations. The OATT defines the rates and terms and conditions of service and offers access to the transmission system;
- Planning of the transmission system in coordination with BC's generation and distribution entities and with planning within the water and transmission organizations;
- Asset management and maintenance of high-voltage lines, substations and communication systems, devices and BC's control centres;
- Development and growth of the transmission grid connected to BC Hydro and BC's control centres system, to provide reliable and secure service, economy and security. Water and
- Regulatory work, in addition to regulatory roles in BC including the cost-effective management of its BC's facilities.

BC's responsibility for BC's Open Transmission (OATT). Regulators, approach is required for an capital expenditure and the security, energy, customer, the BC's and water and transmission having performance that provide open access to the transmission system, and the BC's transmission.

Our Mission

We are BC's independent electric transmission company, providing fair and open access to the grid and creating value and cost opportunities for our customers and stakeholders by providing safe, reliable and cost-effective transmission services.

Our Vision

BC's independent electric transmission company, we are gaining recognition for our innovative and sustainable approach to meeting our customers.

Our Values

BC's core values of honesty, innovation, openness and responsiveness, accountability and sustainability guide our corporate and business decisions. These values are core to our business and reputation and are reflected in everything that we do.

Through Honesty we say what we mean and do as we say we do. We treat all parties fairly and with respect.

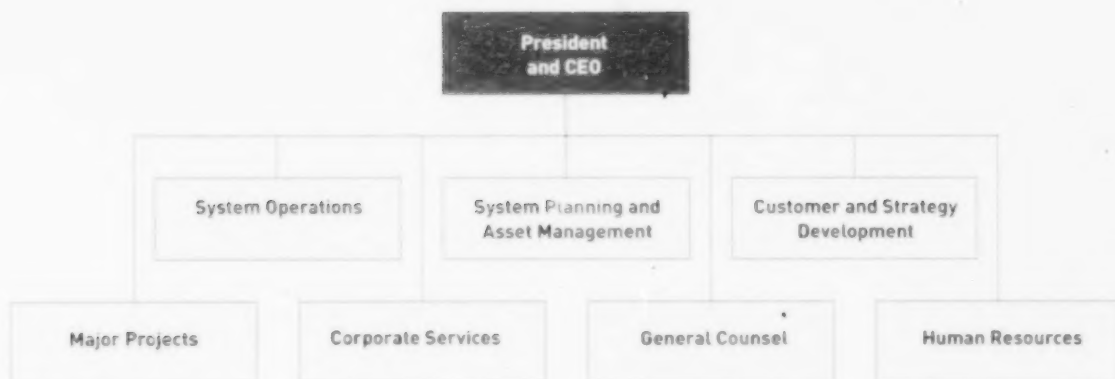
Through Innovation we continuously seek ways to improve our business operations and the way we serve better customers and all of our stakeholders. We seek integrity and balance in our approach. By setting high performance standards we are able to fully understand and effectively manage risk.

Through Openness and Responsiveness, we share information proactively and seek and respond to feedback. We also seek to understand the needs of our customers, First Nations and stakeholders.

Through Accountability we take responsibility for our actions, encourage diverse opinions and support decisions once made. We set clear objectives and accept responsibility for their achievement. We also pursue opportunities to increase the individual knowledge of our business.

Through Sustainability we manage the business with both today and tomorrow in mind. We employ the best people, respecting their diverse skills, experience and background, and invest in their future with us. We respect the natural environment, we work safely, and encourage balance among home life, work and community involvement.

Overview of Internal Organizational Structure



BCTC's activities and services are delivered by 140 employees across seven business departments:

System Operations comprises 118 employees that manage the day-to-day real-time safe, efficient and reliable operation of the transmission system. BCTC operates the System Control Centre in Burnaby, four Area Control Centres in Vancouver, Duncan, Prince George and Victoria, and the Telecommunications Control Centre in Burnaby. This group is also responsible for the System Control Modernization Project (SCMP).

System Planning and Asset Management comprises 94 employees. The team is responsible for planning and sustaining the transmission assets and managing critical transmission projects in a safe, effective and efficient manner. System Planning and Performance Assessment, Asset Program Definition, Asset Program Management, Business Planning, and Strategic Research and Development are in this department.

Customer and Strategy Development comprises 27 employees responsible for developing proactive ways to enhance electricity industry activity on BC's grid while addressing customer and stakeholder needs. This group consists of Communications and Stakeholder Relations, Strategy and Business Planning, Market Operations and Regional Market Policy.

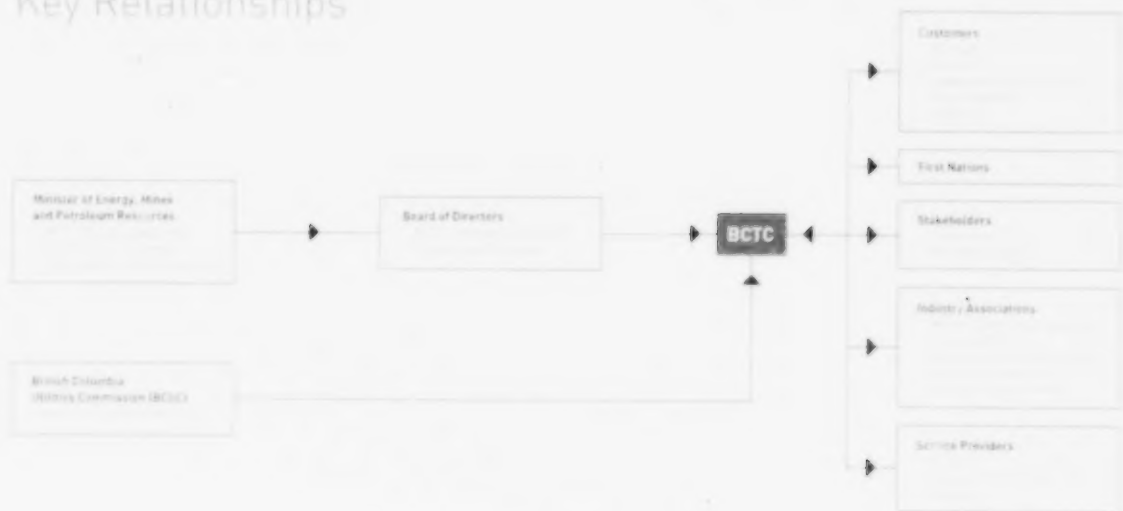
Major Capital Projects comprises two employees and is responsible for ensuring major projects (including the Vancouver Island Transmission Reinforcement project and the SCMP) are executed successfully from inception to construction and commissioning.

BCTC's three corporate areas: **Corporate Services, General Counsel** and **Human Resources** comprise 47 employees that are responsible for legal services, finance, audit, treasury, supply chain management, aboriginal relations, regulatory affairs, information technology, business improvement and human resources.

A significant amount of BCTC's operating and capital activities are performed by third parties under contract to BCTC. BCTC ensures the high quality and cost-effective delivery of these services through Service Level Agreements negotiated with BC Hydro and carefully constructed procurement policies applicable to contracts with other suppliers. BCTC continues to draw on the expertise of BC Hydro, particularly in Field Services and Engineering. This structure helps to keep BCTC's operating costs at a minimum and, in turn, keep rates low for customers.

In addition, Accenture Business Services for Utilities provides back office functions such as information technology support and accounts payable services. This enables the company to focus on the core business obligations.

Key Relationships



BCTC has a number of key relationships that are important to its operations.

Shareholder: BCTC is wholly owned by the Provincial Crown Corporation, the sole shareholder. BCTC reports to the Minister of Energy, Mines and Petroleum Resources. A 10-member Board of Directors is appointed by the Shareholder to oversee the operations of the company.

Regulators: BCTC is regulated by the BCUC and seeks approval from the BCUC for transmission system capacity expansion and the rates for its ratepayers.

In addition, BCTC is subject to other regulatory bodies such as the Nuclear Energy Board (NEB), the Environmental Assessment Office (EAO) and others.

Customers: BCTC works with its major customers, including the BC Hydro and the BC Transmission System. We coordinate all transmission through our customers to ensure the system's safety and reliability.

BCTC's largest customer is BC Hydro. BCTC provides BC Hydro with a highly flexible transmission system designed to allow security of customers in BC, bringing in wholesale customers such as FidoNet and the City of Vancouver.

BCTC also provides power to other customers, including industrial customers for trade or to provide other services, such as the power to the BCUC, the BCUC and others.

In addition, BCTC provides electricity to other customers, such as independent power producers, and other customers, including those connected to the BC grid.

First Nations: BCTC is committed to an open and transparent planning process so that First Nations are informed and actively involved in the process of planning and major transmission issues in the province.

Stakeholders: Stakeholders' views are important considerations in planning and implementing projects and regulatory applications. BCTC's principal stakeholders are customers, local municipalities, community and environmental groups, the BCUC and government.

Industry associations: BCTC is actively involved in regional and national organizations providing safe, reliable and cost-effective operation of the grid. We participate in the Western Electricity Coordinating Council (WECC) and the North American Electric Reliability Council (NERC).

BCTC is also part of the Canadian Electricity Association (CEA), which is the national forum and voice of the electric utilities in Canada. Being part of the CEA ensures BC's perspective and views are represented on a national platform.

Service providers: BCTC's service providers deliver specialized services such as field engineering and vegetation management services.

Alignment with the Provincial Government Strategic Plan

The Provincial Government Strategic Plan sets out the government's long-term vision for the province. BCTC's objectives and activities support the province's overriding goals of economic growth, a supportive social fabric, and healthy communities and environments. The plan also has the goal of creating more jobs per capita than anywhere else in Canada.

The proposed Energy Plan Energy to our Future: A Plan for BC 2002 is aligned with the Strategic Plan's economic growth goal. The 2002 Energy Plan sets out the government's vision for the energy sector's contribution to BC. The plan has four underlying objectives:

- Lower electricity rates and public ownership of BC Hydro
- More private sector opportunities
- Greater innovation and...
- Environmental responsibility and no nuclear power

In recognition, BCTC has supported these objectives and has actively defended those that apply directly to its organization:

2002 Energy Plan Policy Action	BCTC Response
Policy Action 2: "The government will continue to develop, build, own and operate BC Hydro."	→ BCTC has been successful in ensuring that the government's ownership of BC Hydro is not a barrier to private sector investment in the province's energy infrastructure. → BCTC has been successful in ensuring that the government's ownership of BC Hydro is not a barrier to private sector investment in the province's energy infrastructure.
Policy Action 3: "The government will continue to develop, build, own and operate BC Hydro."	→ BCTC has been successful in ensuring that the government's ownership of BC Hydro is not a barrier to private sector investment in the province's energy infrastructure.
Policy Action 7: "The government will continue to develop, build, own and operate BC Hydro."	→ BCTC has been successful in ensuring that the government's ownership of BC Hydro is not a barrier to private sector investment in the province's energy infrastructure.
Policy Action 13: "The government will continue to develop, build, own and operate BC Hydro."	→ The BCTC has been successful in ensuring that the government's ownership of BC Hydro is not a barrier to private sector investment in the province's energy infrastructure. → The BCTC has been successful in ensuring that the government's ownership of BC Hydro is not a barrier to private sector investment in the province's energy infrastructure.
Policy Action 14: "The government will continue to develop, build, own and operate BC Hydro."	→ The BCTC has been successful in ensuring that the government's ownership of BC Hydro is not a barrier to private sector investment in the province's energy infrastructure.
Policy Action 15: "The government will continue to develop, build, own and operate BC Hydro."	→ The BCTC has been successful in ensuring that the government's ownership of BC Hydro is not a barrier to private sector investment in the province's energy infrastructure.
Policy Action 16: "The government will continue to develop, build, own and operate BC Hydro."	→ BCTC has been successful in ensuring that the government's ownership of BC Hydro is not a barrier to private sector investment in the province's energy infrastructure.

In addition, BCTC supports market participation in meeting other 2002 Energy Plan policy actions, such as interconnecting BCTC with the main grid helps BC Hydro to meet its goal of securing clean electricity supply.

In November 2003, the Province announced its intention to update and expand the 2002 Energy Plan, with greater emphasis on conservation, efficiency and innovation. The review process is underway and, once completed, BCTC will support the government's new plan.

Report on Performance

Each year, BCTC defines a set of goals, objectives, strategies and performance targets for ourselves, ranging from goals of being globally recognized as an innovative, sustainable transportation company that is independent of BC Hydro. Our strategic direction supports the goals of the government's 2000 Energy Plan.

Our Board of Directors approved a new strategic approach in August 2000 that translated into full action in February 2001, which was the first year BCTC operated under a complete reorganization. With a better understanding of customers, First Nations, stakeholders and stakeholders' needs, we updated our corporate measures, creating greater clarity and focus on achieving important results. The measures with potential in the Service Plan for Fiscal Years 2001/02 to 2003/04 (September 2000/01 fiscal year) will be outlined in the new revised summary table in Appendix A of this report.

For the 2000/2001 report, BCTC used the performance measures outlined in the September 2000/01 Service Plan to assess performance in Fiscal 2001. The Report on Performance documents BCTC's strategic goals:

- To protect the integrity and security of the transmission system.
- To provide customers with innovative, competitive service. To increase customer service by removing constraints, and Managing successful service to those customers to create a market economy philosophy. These:
 - > understanding the customer's needs and wants
 - > accelerating the direct purchase of energy by other users
- To maintain BCTC's integrity, while embracing the business from our market role - maintain BCTC as a Crown-owned company, regardless of how BCTC.
- To create a world-class customer experience.

Refining our Strategy

As part of the strategic planning process, we strategically refined our corporate strategy and refined the strategic approach. Following review with the Minister of Devolvement, further refinements were then made to our goals, objectives, measures and targets for Fiscal 2001. These are outlined in Appendix A.

Sources of Results and Targets

BCTC sources data from a variety of internal information systems and company databases by third parties to report on performance.

Financial information is provided through BCTC's quarterly reports of results. All financial information and safety records are captured through BCTC's reporting procedures in place across the company. Information is gathered in BCTC's operational databases and analyzed for the purpose of internal and external learning. Finally, the appropriate information analysis are conducted by their parties.

Throughout the year, BCTC participated in independent audits that reviewed various aspects of our business and helped us set future targets. The BCTC committees also inform our analysis of the targets.

Performance measure results are reported regularly throughout the year to BCTC's Executive and Board. The following Report on Performance presents the actual results and targets for each measure. The targets for Fiscal 2001 and 2002 presented in these tables were first reported in the Fiscal 2000/01 to 2000/01 Service Plan. Since then, our Fiscal 2001 measures and targets have been further refined, and then approved by the Board of Directors in May 2001.

Benchmarking our Performance

BCIT is ongoing internal and external benchmarking initiatives to allow us to compare our performance over time. BCIT works with industry groups, such as the Canadian Electricity Association (CEA) and independent firms, to identify appropriate benchmarks and to gather data.

BCIT has a unique perspective in that the company does not sell the transmission assets. This can reduce the effectiveness of external benchmarking when we are comparing the company to our peers. We are working with industry groups to understand the applicability of different benchmarks to our business.

In addition, BCIT measures performance with independent external review. BCIT proactively engages in such reviews to identify areas for improving future actions, strategies and implementing improvements. BCIT's Board of Directors monitors financial and operational performance of BCIT's operating performance in accordance with established targets and expectations.

Refining our Goals and Measures

With great momentum, BCIT refined our goals, objectives and measures to more accurately reflect the operating environment. The table below compares the goals, objectives and measures for Fiscal 2005 to Fiscal 2006, which are consistent with BCIT's Service Plan for Fiscal years 2005/06 to 2007/08 (September 2005 Updated).

Goals

F2006 Goal and Objective	F2005 Goal and Objective	Explanation
Goal To provide customers with our electric service, available 24 hours a day, by removing impediments and ensuring service that enables them ability to access electricity in emergency situations. This includes power generation, transmission, and distribution of electricity to the point of use.	Goal To provide customers with our electric service, available 24 hours a day, by removing impediments and ensuring service that enables them ability to access electricity in emergency situations.	BCIT updated this goal to reflect a better understanding of customer stakeholders and shareholder expectations and how BCIT's capacity to the customer and the power system Energy Plan.
Objective To ensure that BPA, BC Hydro and other West companies are satisfied with their service to BPA. This includes the independent management and response to customer complaints.	Objective To ensure that BPA, BC Hydro and other West companies are satisfied with their service to BPA. This includes the independent management and response to customer complaints.	

Goal One

GOAL

Improve Reliability SAIDI – Planned and Unplanned Outages (Hours)

OBJECTIVE

Reduce the number of planned and unplanned outages in the transmission system, resulting in fewer hours of interruption to customers.

STRATEGY

Improve planning and execution of planned outages, and reduce unplanned outages due to equipment failure or weather-related issues.

MILESTONE

Complete 2006 Reliability SAIDI Report by March 31, 2006.

MEASURE: Reliability SAIDI – Planned and Unplanned Outages (Hours)

F2004 Actual	F2005 Actual	F2006 Target	F2006 Actual	F2007 Target	F2008 Target	Result: Target Exceeded
214*	233*	212*	207	209*	207*	

SAIDI (System Average Interruption Duration Index) is a measure of the reliability of the transmission system that BCTC operates and maintains, including planned and unplanned outages, and includes interruptions due to outages attributed to generators. It is calculated as the average number of hours of outage across all transmission delivery points that service is interrupted in a year due to planned or unplanned outages.

Importance of the Measure

Good service from a utility is measured by providing customers with a high level of service reliability in the transmission system.

Benchmark Comparison

The Canadian Electric Association (CEA) defines SAIDI for the purpose of the Bulk Electricity System (BES) study, as a measure of the average time infrastructure failure that a delivery point experiences during a calendar year, and includes all interruptions, even those considered to be minor outages. However, generator source outages are outside the mandate of BCTC and not included in BCTC's SAIDI submitted to the CEA's BES study. The CEA has not released the official results of this study for public use.

BCTC is working to reach additional better results in future benchmark comparisons in the future.

Data Source/Reporting Period

BCTC Reliability Database Management System (RDMS) – April 1, 2005 to March 31, 2006.

*These numbers are preliminary and subject to change. BCTC is working to ensure that the 2006 Reliability SAIDI numbers are accurate and complete. The 2006 Reliability SAIDI numbers are based on a preliminary calculation of the 2006 Reliability SAIDI numbers. The 2006 Reliability SAIDI numbers are based on a preliminary calculation of the 2006 Reliability SAIDI numbers.

Performance Analysis



A secure, reliable transmission system is a key priority for BCTC. BCTC adheres to recognized industry standards to ensure our customers continue to enjoy reliable service.

In Fiscal 2006, we adjusted the method of calculating Reliability SAIDI to better reflect our circumstances. Previously, this measure was calculated manually, but BCTC has now moved to a fully automated system, enabling BCTC to more accurately track performance.

BCTC faced unfavourable circumstances that affected reliability in Fiscal 2006. Last year was unusual in terms of weather throughout the province. Unseasonable snowfalls and high winds affected our transmission system; however, BCTC acted quickly to restore power.

These were eight sagging air outages in 2004. Of these, two were related to unsupportable sagging and four were related to sagging caused by other causes. BCTC took a number of steps to offset the impact of such outages. These programs contributed to a reduction in the impact of equipment-related outages of approximately 50 per cent in 2004.

Achievements

Reducing Outages

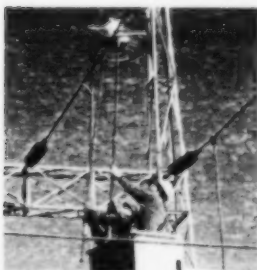
Factors such as weather, trees falling on transmission lines and small wildlife are common causes of transmission outages. Other common causes include debris such as ice, landslides, floods or earthquakes, and also a few outages. BCTC is taking the necessary steps to prepare for and respond to such outages.

In 2004, BCTC completed the second year of the 10-year Edge Zone Program. This program identifies and removes hazards that pose threats to the safety of the transmission system right-of-way. BCTC is giving priority to areas most at risk for high-voltage outages, and is working on a long-term plan.

Last year, BCTC implemented an emergency response program to reduce the length of outages that are typically the most costly and caused by such hazards. By implementing this new operating process, BCTC reduced outages to BC Hydro customers by an estimated 300,000 customer hours. During BCTC's first year of the program, the Service Level Agreement with BC Hydro was met.

Over the past 10 years, BCTC has been working on all-outage and bird guards at key substations throughout the system, with the goal of reducing the number of such outages. BCTC is also working on all-outage and bird guards at key substations throughout the system, with the goal of reducing the number of such outages.

Improving System Performance and Security



In 2004, BCTC completed the first year of the 10-year Edge Zone Program. This program identifies and removes hazards that pose threats to the safety of the transmission system right-of-way. BCTC is giving priority to areas most at risk for high-voltage outages, and is working on a long-term plan.

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Investing in our Assets

As the transmission system ages and demand for service grows, BCTC is continuing to implement a new integrated asset management system and processes that ensure capital and operating expenditures deliver the most value at the least cost over the asset lifetime.

BCTC is maintaining and building transmission infrastructure that is critical to ensure the electricity needs of customers and a growing BC economy can be met. The transmission system that moves power from the Central Interior to the Lower Mainland and Vancouver Island is a key part of the province's energy and economic future. BCTC is investing in the system to ensure it can meet the needs of customers throughout the region.

Vancouver Island is one of the fastest growing regions of the province. In Fiscal 2006, BCTC applied to the BCUC for approval to replace the connection from the Lower Mainland to Vancouver Island. If approved, this should replace the old HADD system, which is nearing the end of its reliable life.

We also initiated transmission and substation projects to improve system reliability to deliver rapidly growing areas of the province, including the Fraser Valley, Whistler and Fort St. John.

BCTC has responded to electricity demand from the growing oil and gas industry in the Northwest part of the province. In Fiscal 2006, BCTC established a new substation in the Fox Creek area located 17 km north of Fort St. John. Over the past year, BCTC has worked with local residents and First Nations to identify an appropriate route for a new 726 kV transmission line required to interconnect the new substation. The new line and substation will be in service by November 2008.

Looking Ahead



In BC, electricity is a resource that is being threatened by climate change. With global warming and rapidly increasing demand, it is becoming more difficult to find the right mix of resources to meet the growing demand. BCTC is working with the BCUC to develop a long-term plan to ensure that the province has enough capacity to meet the growing demand.

In Fiscal 2007, BCTC will continue to invest in strategic research and development to understand technological advancements and develop new and effective ways to maximize system utilization and improve performance in the transmission of electricity.

In Fiscal 2007, BCTC will undergo an independent, comprehensive audit to evaluate our readiness to maintain safe and reliable operations under a variety of circumstances. The audit, established by NEBC following the Eastern blackout in 2003, will verify that BCTC has the appropriate tools, processes and procedures in place to operate reliably and respond effectively to system disturbances.

BCTC intends to engage First Nations and stakeholders, and seek input on options to reinforce the critical 500 kV transmission lines that deliver power from the Peace and Columbia regions to the Lower Mainland.

BCTC will continue to implement the System Control Modernization Project, which will consolidate key control centres into one main centre and one backup. This will also enable BCTC to meet system growth and improve the security of BC's electricity grid. BCTC will continue to employ advanced technology to improve the reliability service we provide customers.

Bringing Innovation to Transmission

Local BC companies and educational institutions are valuable resources for BCTC. In collaboration, we are identifying and developing innovative new technologies to improve the reliability and utilization of the transmission system.

BCTC is working with Power Measurement of Victoria to develop ways to accurately measure key parameters on the transmission system. We believe this will enable us to operate the transmission system more effectively, manage system disturbances, reduce the potential for blackouts and improve transmission service to our customers. Field trials are currently underway in Victoria.

Working with NexPhase T&D Corporation in Vancouver is enabling BCTC to move towards the digital substation of the future. Working with BCTC and BC Hydro, NexPhase has developed new high-accuracy optical current and voltage measurement equipment partially based on IBC technology. We have applied the technology in some of our substations and we expect to derive operational benefits through improved monitoring and increased transmission transfer capacity.

Goals Two and Three

GOAL 2	To provide comprehensive information to all our customers on all our products, services and programs, and to ensure that our customers are satisfied with the quality of our products, services and programs.
OBJECTIVE	To ensure that our customers are satisfied with the quality of our products, services and programs.
STRATEGIES	→ To ensure that our customers are satisfied with the quality of our products, services and programs. → To ensure that our customers are satisfied with the quality of our products, services and programs.
GOAL 3	To ensure that our customers are satisfied with the quality of our products, services and programs.
OBJECTIVE	To ensure that our customers are satisfied with the quality of our products, services and programs.
STRATEGIES	→ To ensure that our customers are satisfied with the quality of our products, services and programs. → To ensure that our customers are satisfied with the quality of our products, services and programs. → To ensure that our customers are satisfied with the quality of our products, services and programs.

MEASURE: Stakeholder Survey Results

2006 Actual	2005 Actual	2004 Target	2006 Actual	2005 Target	2004 Target	Result: Target Exceeded
88%	87%	87%	91%	88%	88%	

Stakeholder Survey Results – Measure how well we're satisfying the regulatory, industry, community and stakeholder needs of our customers. Stakeholder satisfaction is measured by the percentage of stakeholders who are satisfied with the quality of our products, services and programs.

Importance of the Measure

The stakeholder survey results are used to identify areas where we need to improve the quality of our products, services and programs. It also helps us to identify areas where we are doing well and to continue to improve.

Benchmark Comparison

Comparison of survey results with other stakeholders is used to identify areas where we need to improve. We compare our performance to other stakeholders in the industry and to our own performance in previous years.

Data Source/Reporting Period

Stakeholder survey results are reported quarterly. The reporting period is March 2006. The survey included all stakeholders and all products, services and programs.

Performance Analysis

BCTC places importance on excellence in customer service, providing independent, open and fair access to the electricity grid. We actively listen to customers, and demonstrate that we are listening by reflecting their needs in our decisions and improving service.

Understanding the needs of First Nations and stakeholders is equally important, and we are committed to ensuring all British Columbians are informed and actively involved in discussions about major projects. This process will ensure improvements to the transmission system are made to adequately meet growing demand while continuing to provide safe, reliable and cost-effective transmission services.

In Fiscal 2006, BCTC completed the third annual independent stakeholder survey to help us understand the views and impressions of a cross-section of stakeholders. The survey also gives BCTC feedback on our performance and is part of the annual performance measurement process.

In Fiscal 2006, we exceeded our stakeholder survey results target. The survey results showed that 91 per cent of stakeholders who participated held a positive or neutral impression of BCTC. This is an incremental improvement over last year's result of 87 per cent.

Achievements

In Fiscal 2006, BCTC made significant strides in advancing the objectives of the government's 2002 Energy Plan by creating new opportunities and increasing value for our customers and shareholders.

Serving our Customers

Following extensive customer engagement and regulatory approval, BCTC implemented the Open Access Transmission Tariff (OATT), one of the most significant accomplishments in Fiscal 2006. The tariff is designed to improve access to and utilization of the existing transmission system by providing a number of new products and services. For example, long-term shaped service allows BCTC to offer transmission capacity that was previously not available. As part of the OATT implementation process, BCTC consulted with customers to create efficient and streamlined business practices.

Facilitating New Opportunities

In Fiscal 2006, BCTC demonstrated that we are listening to the needs of customers.

Following a year of collaboration with BC Hydro, Bannockburn Power Administration and the California Independent System Operator (CAISO), BCTC implemented Dynamic Scheduling, which allows qualified market participants to access an ancillary services market they previously were not able to participate in.

BCTC also heard from independent power producers and transmission service customers, who would like more information to help them identify the best location for their projects. In response, we developed a series of reports on the capacity limits of various transmission circuits throughout the province to assist customers with their planning and project evaluations.

Since BCTC was created in 2003, customers and other stakeholders have encouraged us to take an increasingly proactive planning role. In Fiscal 2006, BCTC finalized a new Transmission Expansion Policy, which outlines the approach we will take to expand the system by valuing the additional benefits for customers and ratepayers.

Listening to our Stakeholders



In Fiscal 2006, BCTC held more than 100 meetings and events, working one-on-one with First Nations and stakeholders.

An open and transparent consultation process that actively involves First Nations and stakeholders in our planning process and major initiatives is core to successful operations. This benefits all parties involved by creating knowledge and understanding of specific issues and ensures that our decisions balance with the needs of First Nations and stakeholders.

In Fiscal 2006, BCTC expanded the consultation program. More than 100 stakeholder and First Nations meetings and events took place over the year.

In partnership with BC Hydro, BCTC engaged more than 250 First Nations from 75 different bands about BC's electricity future and the 10-year Capital Plan. In Fiscal 2007, BCTC will launch a new program to talk with First Nations about opportunities for participation in the electricity industry.

Investing in BC Communities



In Fiscal 2006-2007, BCTC donated \$100,000 to the Farmhouse Foundation Program as part of its Community Outreach Fund.

BCTC is committed to investing in the future of BC communities through outreach activities. The Corporate Outreach Fund sponsors charitable initiatives that align with BCTC's priorities of environment and education. Several the charities we supported in Fiscal 2006 included Junior Achievement of BC, the Miners' Foundation's Aboriginal Women's Initiative, the Nature Conservancy of Canada, the Vancouver Aquarium's Aqua Van program and the Community Advancement Program.

In total, BCTC's corporate giving program donated \$200,000 to charitable organizations across the province in Fiscal 2006.

Regional Coordinating Activities

BCTC is active in coordinating and cooperating with other jurisdictions. BC's transmission system is interconnected with Alberta and the U.S., and regional coordination is critical to ensuring reliability for customers.

The effort to develop Grid West, an independent, non-profit regional transmission organization, was discontinued in Fiscal 2006. BCTC supported the Grid West model, but divergent objectives prevented the initiative from moving forward. BCTC believes that many of the benefits that Grid West sought to achieve can still be effectively fulfilled with thoughtful, multi-jurisdictional working deal II, with thoughtful utilities in Alberta and the U.S. rather than broad market-wide restructuring.

In Fiscal 2006, a senior BCTC representative was appointed to the Western Electricity Coordinating Council. While a second was nominated as the Canadian representative to the North American Electricity Reliability Council. These regional profiles in key bodies ensure organizations are aware BCTC's views are represented and that we play an active role in shaping future policy. In addition, BCTC representatives participated in regional planning studies through the Northwest Transmission Assessment Committee, and participated in studies conducted by the Alberta Electric System Operators ensure BC interests are protected.

Looking Ahead

In Fiscal 2007, the customer, Grid Systems and stakeholder consultation program will aim at gaining input on specific initiatives, such as rate designs, the planning processes and major projects such as the need to move more electricity from the interior to the Lower Mainland. Our priority is to understand the impacts at the early stages of these projects and work with customers, First Nations and stakeholders to shape development plans.

BCTC will also continue to be actively engaged in ensuring that the BC grid works effectively with our regional counterparts. We will continue to pursue bilateral initiatives to harmonize business practices, as well as to coordinate outages or require system planning and resource planning.

In Fiscal 2007, BCTC will work closely with the Alberta Electric System Operator (AESO) to explore opportunities to increase transfer capacity and enhance operation of the Alberta-BC intertie. In addition, we will initiate a suggestion and requestor two-way communication with our transmission interface.

Encouraging Customer and Stakeholder Input

BCTC's Transmission Planning Advisory Committee (TPAC) advises BCTC on significant transmission planning policy issues. Established in 2004, the committee includes customers, other utilities, local government and First Nations.

TPAC played an important role in Fiscal 2006, shaping BCTC's Transmission Expansion Policy. Under the policy, BCTC will take a more proactive approach to transmission development and propose strategic investments in the transmission system to facilitate opportunities for the electricity industry in BC.

In Fiscal 2007, TPAC will explore the role of non-wires alternatives and provide advice to BCTC on the role we should play in greater electricity planning.

Goal Four

GOAL

Improve overall transmission efficiency

OBJECTIVE

Improve transmission efficiency, improve the use of transmission assets and improve management practices

STRATEGIES

- Develop a comprehensive transmission plan to ensure efficient use of transmission assets and improve management practices
- Develop a comprehensive transmission plan to ensure efficient use of transmission assets and improve management practices
- Develop a comprehensive transmission plan to ensure efficient use of transmission assets and improve management practices

MEASURES

- Operating Efficiency — OMA (cents) per GWh-km
- Losses (kWh) per 100 kWh delivered
- Average of transmission losses (cents) per kWh
- Transmission losses (cents) per kWh

MEASURE ONE: Operating Efficiency — OMA (cents) per GWh-km

F2004 Actual	F2005 Actual	F2006 Target	F2006 Actual	F2007 Target	F2008 Target	Result: Target Exceeded
20.5	18.9	20.0	19.0	18.7*	18.7*	

Operating Efficiency — Operation, Maintenance and Administration (OMA) (cents) / GWh-km is a measure of efficiency in operating and managing the transmission assets. It measures OMA costs in relation to the volume of energy delivered to domestic customers and the length of the transmission system.

Importance of the Measure

This measure looks at how effectively BCTC is using the operating budget to manage its delivery on the transmission system. The results will inform BCTC's decisions to improve and streamline business and operation practices to achieve cost-effective operations.

Benchmark Comparison

BCTC participates in the CEA/CORE (Committee on Corporate Performance and Productivity Evaluation) study. The CEA/CORE definition of energy transmitted includes both domestic load and trade volumes. It should be noted that, since the trade volumes vary significantly from year to year, BCTC does not include trade volumes in the internal definition of energy transmitted. When BCTC's energy transmitted figures are adjusted to conform to the CEA approach, the result for Fiscal 2005 is 18.2 cents per GWh-km compared to the peer group average of 18.5 cents per GWh-km. Compared to last year, BCTC's value for this metric has increased by eight percent. This increase in BCTC's value is primarily due to a nearly 10 per cent reduction in trade volumes. In absolute terms, BCTC's OMA costs have actually decreased by 2.5 per cent from last year.

There are number of factors that can contribute to the difference in performance across companies, including geography, climate, growth rate, customer age, impact of significant events and others. Without normalizing for these factors, the peer-to-peer benchmarking comparison becomes very challenging. Through the CEA, BCTC is actively working with other utilities in defining performance metrics that are accurate, verifiable and comparable.

Data Source/Reporting Period

The OMA numbers are derived from BCTC's internal financial systems. Load forecast is supplied by BC Hydro. Mileage information is derived from internal planning reports.

* The 2007 BCTC Board of Directors approved a change in the OMA target for Fiscal 2007 to reflect updated data with the most accurate and complete information available. BCTC expects to meet the Fiscal 2008 target based on current forecast and existing plans for Fiscal 2008.

Performance Analysis

In Fiscal 2006, BCTC focused on finding ways to optimize the value of transmission investments while implementing the tools and processes for effective asset and business management. As a result, BCTC exceeded our Fiscal 2006 target for operating efficiency.

During the year, BCTC developed a number of approaches that extend the useful life of transmission equipment while maintaining high reliability standards. Streamlining business processes is helping to eliminate duplication and overlap, complementing the asset management program. This focus enabled BCTC to eliminate a number of inefficiencies in our core functions as a transmission operator, planner and asset manager.

Achievements

BCTC demonstrated operational excellence with a number of achievements in Fiscal 2006:

Managing the Grid with Innovation

Our approach is to manage each transmission asset to deliver the most value at the least cost over its lifetime, instead of making expensive substitutions at substations. BCTC tested methods to stabilize oil flow in the cables. The results were exceptional and a significant creative approach minimized maintenance requirements, adding benefit to the overall system. Next year, the program will be extended to other substations where the same issues occur.

Large-scale contract procedures introduced in Fiscal 2006 give us the flexibility needed to plan operational expenditures. The process enables BCTC to bundle and schedule projects more efficiently and optimize the efforts of field teams. These measures have already reduced operational and maintenance expenses. In addition, BCTC completed new commercial service arrangements with BC Hydro. Under this agreement, BC Hydro provides BCTC engineering, maintenance and construction services.

BCTC also began an assessment of the environment around the entire transmission system. This will identify vegetation, riparian zones and other important environmental information. One consolidated assessment will ensure that valuable environmental information is readily available, without the need to conduct an assessment for every project. While the process will not directly reduce construction expenses, it will offset increasing costs to meet new environmental standards or regulations such as the Wildlife Act that impact our Eastern operations.

By implementing forest and other ecosystem management techniques, BCTC reduced or deferred \$4.4 million in expenditures in Fiscal 2006.

Technology at Work in Asset Management

Applying technology to our business has created more accurate asset information, giving BCTC the tools to prioritize budget expenditures. BCTC can now better assess the productivity of transmission assets and schedule maintenance or replacement effectively.

BCTC is the first utility in Canada to adopt condition mapping programs that help us understand the lifespan of transmission equipment and extend their useful life. This has helped to identify underground corroded equipment and predict breakdowns, emissions and runoff, improving the safety and reliability of the transmission system.

Efficient Business Processes Complement Asset Management

BCTC's first year as an independent Crown corporation saw many changes to the business operation. Business and financial systems and controls were put in place to facilitate the implementation of Open Access Transmission Tariff (OATT), capital plan and other business initiatives.

In early 2006, the OATT came into effect. Given the complexity of the OATT, BCTC identified efficient business processes to offset the impact of transitioning to the new OATT on both the company and customers. Automating applications will reduce the administration required for this process.

In addition, BCTC consolidated key processes under the OATT into our business practices, saving time and reducing administrative costs.

Looking Ahead

In Fiscal 2007, BCTC will continue to identify ways to optimize the value of transmission investments. BCTC will also continue to review the maintenance standards to ensure we have the most effective asset management programs.

In Fiscal 2007, BCTC will work closely with service providers to continuously improve our field services programs. We will prioritize maintenance work for the coming year to ensure that we get the full value from service providers.

Over the coming year, BCTC will explore technologies that allow preventative maintenance measures, reduce maintenance requirements, and ensure we achieve the greatest value from our transmission assets.

MEASURE TWO: Number of Lost-Time Accidents

F2004 Actual	F2005 Actual	F2006 Target	F2006 Actual	F2007 Target	F2008 Target	Result: Target Met
0	0	0	0	23*	22*	

Number of Lost-Time Accidents measures BCTC's performance in ensuring the highest level of employee and contractor safety. It focuses on those incidents that are serious enough that they would cause loss of time off work for an employee. In Fiscal 2007, BCTC will not have lost-time accidents for contractors, and will report a combined target for employee and contractor lost-time accidents. In May 2006, BCTC's Board of Directors approved a target of 23 for all lost-time accidents in previous years. This year target reflected BCTC employee safety only.

Importance of the Measure

This measure supports the fundamental BCTC objective for employee safety that is reflected in our vision and values.

Benchmark Comparison

Comparable industry statistics are available via the Canadian Electrical Association (CEA) of similar sized utilities. BCTC generally submits our performance to the CEA relative to the following industry wide metrics: all injury frequency rate, lost-time injury frequency rate and lost-time injury severity rate. For two consecutive years, BCTC has achieved the CEA's President's Award for employee safety.

Data Source/Reporting Period

CEA 2006 Safety Incidents Statistical Report. These statistics are reported on a calendar year basis.

*BCTC targets against the Fiscal 2008 target against a lost-time accident and property damages of 1.0 in 2007.

Performance Analysis

Safety in all we do



BCTC has a comprehensive Safety Management System that is consistent with OHS and WorkSafeBC.

BCTC is committed to ensuring the transmission system is safe. We have a comprehensive Safety Management System in place, which incorporates safety principles, management practices and performance measures. The system is consistent with the standards published by the International Standards Organization (ISO) and incorporates the safety management expectations of WorkSafeBC.

In Fiscal 2006, we maintained the target of zero lost-time accidents for employees. This achievement is a direct result of our continued commitment to safe work practices and engaging employees in safety policies and practices.

Achievements

BCTC incorporates stringent safety policies and practices in our day-to-day operations, and is continuously identifying ways to improve these. In Fiscal 2006, BCTC implemented a number of planned safety management activities, and established a monthly safety awareness program to engage employees.

In Fiscal 2006, BCTC took three steps to improve safety for employees and broaden the focus of its employee protective program. Operating on an excellent audit of our Safety Management System that focused on identification, assessment, control, and monitoring of safety issues and safe work practices under the system.

BCTC issued a formal safety message in Fiscal 2006 to emphasize the safety culture drive. We also continued to develop and enhance programs, a training plan to ensure compliance with the process and plan to address emergency preparedness to protect the safety of our people and the community at large.

In Fiscal 2006, the Canadian Electrical Association (CEA) recognized BCTC's performance for employee safety with the 2006 Excellence Award in E-safety. We also recognized with the Bronze Award in Fiscal 2006.

Looking Ahead

In Fiscal 2007, BCTC is introducing a collective safety system that in addition to the existing employee system. We will continue to work closely with our partners, including BC Hydro, to ensure safety performance in the field.

BCTC is implementing a new system designed to promote and monitor continuous improvement in safety expectations, with a target of 100% compliance with all safety standards and a target of 100% compliance with all safety standards.

BCTC is actively engaged with the regulatory group of the CEA to improve industry safety standards for the industry. We are currently working on the proposed 100% compliance performance indicators and further integrate the safety system. BCTC is working with the CEA to improve standards in the region.

MEASURE THREE: Reportable Environmental Incidents

F2004 Actual	F2005 Actual	F2006 Target	F2006 Actual	F2007 Target	F2008 Target	Result: Target Not Met
0	0	0	0	0	0	

Reportable Environmental Incidents are defined by the current system that our standards and regulations for environmental management. The system is a key part of our safety system.

Importance of the Measure

The measure is a key part of our safety system. It is a key part of our safety system. It is a key part of our safety system.

Benchmark Comparison

The measure is a key part of our safety system. It is a key part of our safety system. It is a key part of our safety system.

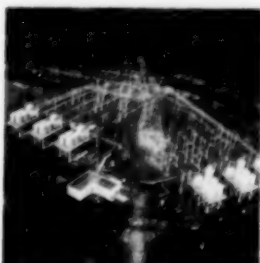
Data Source/Reporting Period

BCTC reports on its performance in the area of environmental incidents. The report is a key part of our safety system. It is a key part of our safety system.

The measure is a key part of our safety system. It is a key part of our safety system. It is a key part of our safety system.

Performance Analysis

Environmental Responsibility



BCTC is focused on understanding and preventing environmental impacts of our business. BCTC has implemented an Environmental Management System that reflects ISO standards. We take the important and responsible steps to minimize the impact of our operations. It affords the priority is to return habitat to its natural state to achieve sustainability over the long-term.

During the past year, BCTC's high-voltage transmission system encountered challenges including vegetation equipment failure and construction that affected our environmental performance. As a result, we did not achieve the target of less than seven reportable environmental incidents. A total of 12 reportable environmental incidents occurred.

The transition to a fully independent power corporation identified some necessary improvements in our environmental management processes. The change in roles and responsibilities gave rise to additional staff training requirements and controls as a result of the new-integrated business model and the performance-based Service Level Agreements with BC Hydro.

In Fiscal 2006, BCTC conducted an independent audit of the Environmental Management System to better understand our business, recognize where improvements need to be made, and implement processes and procedures that will be shared across the business. With this renewed focus on clearly defined roles and responsibilities, BCTC intends to meet its environmental performance measures going forward.

Achievements

BCTC began implementing a strategy to improve the Environmental Management System in Fiscal 2006. An important step was to consolidate three different management systems into one, simplifying the processes and ensuring a consistent Environmental Management System is in place across the business. We are also implementing environmental control processes that are more effectively managed.

BCTC is part of the CEA's Environmental Commitment and Responsibility program, entering the commitment to responsible environmental management. This national program involves Canadian energy utilities and focuses on continuously improving environmental performance, management and communications while ensuring cost-effective and reliable electricity. BCTC is also working with CEA to develop standards that apply to BCTC.

Looking Ahead

In Fiscal 2007, BCTC will continue to integrate environmental best practices into our business processes and to embed environmental priorities within the asset management program. BCTC will review the program and add rigour to the Environmental Management System.

We are also continuing to collaborate and coordinate environmental standards and systems in place with other industries. For example, BCTC will work with resource-based industry groups to enhance our environmental practices and build on the experience of others where appropriate.

In Fiscal 2007, BCTC will also continue to drive contract management, ensuring appropriate training oversight controls and due diligence in place for our field service partners and contractors.

MEASURE FOUR: Employee Engagement Index

Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Result:
2006	2007	2008	2009	2010	2011	
Actual	Actual	Target	Actual	Target	Target	Target Not Met
3.35	3.35	3.45	3.35	3.45	3.45	

Employee Engagement Index measures how well BRTC is performing with respect to a highly engaged, high-performance workforce. It is a composite of several factors including employee satisfaction, engagement, and commitment. The index is calculated through an annual employee engagement survey.

Importance of the Measure

Employee engagement is a key driver of organizational success. It is a measure of the extent to which employees are committed to the organization and its goals, and are willing to go above and beyond the call of duty to achieve them.

Benchmark Comparison

BRTC's Employee Engagement Index score of 3.35 is below the industry average of 3.45.

Data Source/Reporting Period

Data source: Employee Engagement Survey, 2011-2012.

Performance Analysis

BRTC's success in providing a high-quality customer experience is largely due to the dedication and expertise of its employees. They provide a high level of customer service, and are committed to providing a high-quality customer experience. This is a key driver of BRTC's success.

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To ensure progress in creating a positive working culture, BRTC adopted an employee engagement measure in Fiscal Year 2011. BRTC's Employee Engagement Index score was 3.35 out of 4.0. The trend is similar to the previous year and indicates that the trend is positive.

The reason for the positive employee engagement is the high level of the organization and the employee's expertise. The organization is committed to providing a high-quality customer experience, and the employee's expertise is a key driver of the organization's success. The organization is committed to providing a high-quality customer experience, and the employee's expertise is a key driver of the organization's success.

BRTC's success in providing a high-quality customer experience is largely due to the dedication and expertise of its employees. They provide a high level of customer service, and are committed to providing a high-quality customer experience. This is a key driver of BRTC's success.

- 1. Ensure an effective and efficient process between work and employee.
- 2. Ensure a high level of customer service and employee engagement.
- 3. Address the employee's needs, such as employee demographics, education, training, and other factors.
- 4. Help employees better understand BRTC's strategy.

Achievements

Engaging our Employees



BCTC focuses on engaged workers and healthy personal and company success. In Fiscal 2006, BCTC actively engaged employees in the business, focused on work life and focus on employee development, high performance, employee care, and an active presence and presence from the President.

Three key elements to success: better performance, better management and give more resources to employees to ensure they are the company's energy and energy workers.

In Fiscal 2006, BCTC launched the Global Health Modernization Program, which put immediate control over the business process with employees. The program was designed to ensure employees are involved in the business and management. The program was designed to ensure employees are involved in the business and management. The program was designed to ensure employees are involved in the business and management.

In Fiscal 2006, BCTC launched the Global Health Modernization Program, which put immediate control over the business process with employees. The program was designed to ensure employees are involved in the business and management. The program was designed to ensure employees are involved in the business and management.

Investing in our Employees

As a company that recognizes, BCTC focuses on ensuring a high level of employee engagement. BCTC focuses on ensuring a high level of employee engagement. BCTC focuses on ensuring a high level of employee engagement.

In Fiscal 2006, BCTC focused on ensuring a high level of employee engagement. BCTC focuses on ensuring a high level of employee engagement. BCTC focuses on ensuring a high level of employee engagement.

Twenty-two high performance goals were set, and the focus was on ensuring a high level of employee engagement. BCTC focuses on ensuring a high level of employee engagement. BCTC focuses on ensuring a high level of employee engagement.

Through the year, BCTC focused on ensuring a high level of employee engagement. BCTC focuses on ensuring a high level of employee engagement. BCTC focuses on ensuring a high level of employee engagement.

At the same time, BCTC is implementing new recruitment strategies with programs such as the Apprenticeship and Employment Training programs, which are helping to attract and develop new talent.

BCTC also continued its focus on ensuring a high level of employee engagement. BCTC focuses on ensuring a high level of employee engagement. BCTC focuses on ensuring a high level of employee engagement.

Community Involvement

BCTC is also committed to a culture that goes back to the communities where we live, work and learn. Employees are actively engaged in Transform, the employee-based corporate giving program.

Supporting our Employees

BCTC focuses on supporting employees for their valuable contribution. Annually, deserving employees are recognized for their diverse skills in all areas of the business including operational, technical, safety and service excellence.



With a 100% employee satisfaction score and a 100% employee retention rate, BCTC is a truly exceptional organization.

The Tradex Award recognizes technical excellence, innovation, employee and customer service. Tradex awards are nominated by their peers and an independent committee using independent criteria to evaluate each nominee. Tradex awards are then reviewed by the Executive Leadership Team.

BCTC is proud of the strong programs and initiatives in place that ensure the delivery of high-quality products and services to our customers and the satisfaction of our employees.

Looking Ahead

In the coming year, we will continue to build our global customer network and build upon the success of our Employee Engagement strategy.

- Increasing customer performance management processes by providing self and team performance, as well as increasing development processes and opportunities.
- Increasing customer focus and customer satisfaction programs, and
- Increasing employee satisfaction programs and employee retention.

Through the coming year, we will continue to work together with our customers to help, support, and build upon the success of our customers and the success of our employees. We will continue to build upon the success of our employees and the success of our customers. We will continue to build upon the success of our employees and the success of our customers.

Profiling our Employees

BCTC boasts an exceptional team of experts. Two employees in particular have been recognized globally for their outstanding contributions to BCTC and the world's technology industry.

Dr. Wenyuan Li is the Manager of Business Consulting Training and Performance Advancement and is an example of our expert team. He has been recognized by BCTC for his exceptional contributions to our company, including innovation, team and leadership.



Dr. Wenyuan Li, Manager
Business Consulting Training
and Performance Advancement

With a PhD in Electrical Engineering, Dr. Li has been recognized for his exceptional contributions to BCTC. He has published his work on electrical engineering, including his work on electrical engineering and his work on electrical engineering. He has also been recognized for his work on electrical engineering and his work on electrical engineering.

Dr. Li is a member of the IEEE, the IEEE Computer Society, and the IEEE Systems, Man, and Cybernetics Society. He is also a member of the IEEE Systems, Man, and Cybernetics Society.

Dr. Li is a member of the IEEE, the IEEE Computer Society, and the IEEE Systems, Man, and Cybernetics Society. He is also a member of the IEEE Systems, Man, and Cybernetics Society.

Jim Gurney is a member of our team, having been recognized globally for his exceptional contributions to BCTC. He has been recognized by BCTC for his exceptional contributions to our company, including innovation, team and leadership.



Jim Gurney, Manager
Business Consulting Training

During his career, Jim has worked for several major North American and international companies, including IBM, and has been recognized for his exceptional contributions to BCTC. He has also been recognized for his work on electrical engineering and his work on electrical engineering.

Dr. Li is a member of the IEEE, the IEEE Computer Society, and the IEEE Systems, Man, and Cybernetics Society. He is also a member of the IEEE Systems, Man, and Cybernetics Society.

Governance

BCTC was created in support of the BC Government's 2002 Energy Plan, and is responsible for transmission system operations, planning, asset management and maintenance. Incorporated under the Business Corporations Act in 2003, BCTC is a Crown corporation with responsibilities specified in the Transmission Incorporation Act. BCTC is governed by a Board of Directors appointed by the BCTC's Shareholder and independent from management. The Minister of Energy, Mines & Petroleum Resources of the Minister responsible for BCTC. A Shareholder's Letter of Expectations between the Minister of Energy, Mines and Petroleum Resources and BCTC's Board Chair sets out the corporate mandate, high level performance expectations, strategic priorities and the respective roles and responsibilities of the Shareholder and BCTC.

In February 2005, the Long-term Operating and Capital Investment Framework agreements between BCTC and BC Hydro under the Transmission Incorporation Act. These agreements set out the obligations and responsibilities between the two Crown corporations, and are supplemented by several other Agreements setting out detailed transmission system responsibilities and operational matters. Transmission system assets continue to be owned and financed by BC Hydro. BCTC is regulated by the British Columbia Utilities Commission, which approves the Corporation's revenue requirement, rates, and non-regulated expenditures following open public processes.

Board of Directors

BCTC's Board of Directors is responsible for the governance and stewardship of the Corporation. The Board confirms and regulates BCTC's corporate direction, assigns responsibility to Management for its movement of that direction, reviews and approves Management's strategy, plans, defined limitations, and oversees the Corporation's performance against established objectives and limitations.

The Board has three standing committees: the Audit Committee, Human Resources Committee and Corporate Governance Committee. The Board, its Committees and the Board Chair each have written terms of reference outlining their respective roles and responsibilities. Terms of reference are also in place for the President and Corporate Secretary. The terms of reference, as well as Board member biographies, are available on BCTC's website: www.bctc.ca.

Governance Framework

BCTC's Board of Directors has established an internal governance framework for the Corporation which consists of guiding corporate principles and business policies. In 2005, the Board Resourcing & Development Office established governance and business guidelines for *Governing Boards of British Columbia Public Sector Organizations*. These Guidelines set out good governance principles and disclosure practices for public sector organizations in BC. The Board of Directors has ensured BCTC's internal governance framework complies with the principles set forth in the Guidelines.

BCTC has in place a Code of Ethics for employees and directors, and carries out annual declaration processes to ensure employees and officials are in compliance with the Code of Ethics. Results of the declaration process, and matters relating to the Code of Ethics, are reported annually to the Corporate Governance Committee of the Board. A copy of BCTC's Code of Ethics is available on BCTC's website.

External and Internal Audit

BCTC's External Auditor and Internal Auditor serve as objective assurance functions. Over the past year, the external Auditor and internal Auditor successfully executed their annual plans and reported on a quarterly basis to the Audit Committee of the Board.

In keeping with best practices, BCTC's internal Auditor applies a risk-based and disciplined approach to evaluating the organization's internal controls. This approach is intended to safeguard business assets and processes, and does so by applying the *Committee of Sponsoring Organizations (COSO) Internal Control Framework*, an internationally-recognized framework for internal controls.

Enterprise Risk Management

Since 2004, BCTC has used an Enterprise Risk Management framework to identify, assess, mitigate and monitor risks. BCTC's risk management framework was designed to provide representative assurance that its corporate and business risks are well managed. BCTC's enterprise risk management efforts are overseen by a corporate Risk Management Committee, a cross-business unit risk management team and the Audit Committee of the Board.

Standards of Conduct

BCTC is subject to Standards of Conduct imposed by the BC Public Companies Commission in 2004. BCTC's Standards of Conduct (adopted upon public transmission) serve to be provided on a non-discriminatory basis to all shareholders, customers, suppliers and other stakeholders under the Standards of Conduct. BCTC regularly publishes transparency information on its website, in its annual and through its then Access to Information Act Request System.

Fiscal 2006 Activity Summary

In Fiscal 2006, BCTC's Board of Directors held 8 Board meetings and 14 Committee meetings, including quarterly business reviews, Strategic Management Council. The Board of Directors held a two-day strategic planning session in September 2006 and participated in Executive Strategy sessions with members of the strategic management team. Throughout the year, the Board Chair, President & CEO and Board of Directors also engaged and advised the Minister of Energy, Mines & Petroleum Resources on key developments impacting the Corporation.

The Board of Directors appointed David Stewart as President and Chief Executive Officer in April 2006 and approved a compensation agreement with the President and by the Human Resources Committee, the Board undertook an assessment of the Corporation's performance and the President's individual performance at the end of the fiscal year.

In Fiscal 2006, the Board of Directors regularly discussed and reviewed Board and Committee performance and undertook a strategic plan development exercise. In addition to generally monitoring corporate developments, reviewing information reports on key activities and approving material transactions throughout the year, the Board and its Committees reviewed and approved plans to track shareholder reporting requirements. Updates were also made to the Board of Directors' resolutions relating to corporate social guidelines policies and procedures information available to Board members.

Summary of Director Attendance

Director attendance for Board and Committee proceedings occurred between 1 April 2006 and 31 March 2007.

Board Member	Board Meetings Attended	Committee Meetings Attended
David Stewart	8/8	14/14
Michael Byrne	8/8	14/14
Michael Campbell	8/8	14/14
Michael Hoggan	8/8	14/14
John Smith	8/8	14/14
John MacFarlane	8/8	14/14
Naomi Mowat	8/8	14/14
Michael Norman	8/8	14/14
John Flett	8/8	14/14
David Hoggan	8/8	14/14
Michael Smith	8/8	14/14

1. Michael Campbell was absent for the 14th meeting on 13 December 2006.

Directors & Officers

Board of Directors

Composition of the Board and its three standing Committees



R.T.F. (Buti) Reid

Chair of the Board
Executive Director
Chairman of the Board



Nicole Byres

Executive Director
Chairman of the Board



Richard Campbell

Executive Director
Chairman of the Board



John Gill

Executive Director
Chairman of the Board



Norm Laythorpe

Executive Director
Chairman of the Board



Joanne McLeod

Executive Director
Chairman of the Board



Margot Northey

Executive Director
Chairman of the Board



Bev Park

Executive Director
Chairman of the Board



Gerald Wesley

Executive Director
Chairman of the Board



Ralph Winter

Executive Director
Chairman of the Board

Corporate Officers



Jane Peverett

Executive Director
Chairman of the Board



Brian Gabel

Executive Director
Chairman of the Board



Martin Huang

Executive Director
Chairman of the Board



John Irving

Executive Director
Chairman of the Board



Doug Little

Executive Director
Chairman of the Board



Bruce Barrett

Executive Director
Chairman of the Board



Brian Demerse

Executive Director
Chairman of the Board



Julius Pataky

Executive Director
Chairman of the Board



Elizabeth Hong

Executive Director
Chairman of the Board



Diana Stephenson

FINANCIAL RESULTS

Management's Discussion and Analysis

Management has prepared a discussion and analysis of British Columbia Transmission Corporation's (BCTC or the Company) business operations and significant events that have affected its results of operations and financial position for the year ended March 31, 2006 (F2006) relative to the same period last year (F2005) and to the Service Plan published in September 2005 (F2006 Plan). References to transmission system and assets contained in this discussion and analysis include those system and assets which BCTC plans, operates and manages on behalf of BC Hydro who owns the transmission system and assets. This management's discussion and analysis should be read in conjunction with the audited financial statements and the accompanying notes. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are expressed in Canadian dollars.

Management has included forward-looking statements which we believe to be reasonable based on historical experience, current conditions and assumptions. These statements are subject to risks and uncertainties which may cause actual results to differ materially from those contemplated in the forward-looking statements. This management's discussion and analysis has been prepared based on information available as at May 8, 2006.

BCTC's Business Model

BCTC is a commercial Crown corporation wholly owned by the Province of British Columbia with a mandate to deliver services on a commercial basis and charge rates for those services. The Company was incorporated on May 2, 2003 and is authorized by the *Transmission Corporation Act* (May 29, 2003) and the Key Agreements, designated by the Lieutenant Governor in Council (November 20, 2003), to provide open and non-discriminatory access to BC's electric transmission system and to plan, operate and manage transmission assets on behalf of BC Hydro. Under the terms of an arrangement with the Province of British Columbia, the Minister of Finance is appointed as the Fiscal Agent of BCTC. The Fiscal Agent is responsible for all of BCTC's external financing activities including borrowing, debt management, banking arrangements and investment of surplus funds. In addition to meeting the financial reporting requirements under the B.C. *Business Corporations Act*, BCTC is also subject to the *Budget Transparency and Accountability Act*, the *Financial Information Act*, the *Financial Administration Act*, the *Utilities Commission Act* and the *Freedom of Information and Protection of Privacy Act*.

BCTC's business model has evolved since its inception to its current regulated transmission utility model. On August 1, 2003, BCTC began operation under the Transition Agreement with BC Hydro to operate the transmission business on behalf of BC Hydro. In establishing BCTC as a separate entity, 276 employees transferred from BC Hydro and assets used for the control and operation of the transmission system were either transferred or leased from BC Hydro. The Transition Agreement was effectively terminated with the designation of the Key Agreements on November 20, 2003 and BCTC began Phase 1 operation under the Key Agreements effective December 1, 2003.

During Phase 1, BCTC operated as a non-regulated entity providing system operation and asset management services to BC Hydro on a fee for service basis. BCTC also assumed responsibility for offering transmission services to customers under BC Hydro's Wholesale Transmission Services tariffs. During this phase, BCTC earned service fee revenue sufficient to cover its operating costs and an allowed net income based on BC Hydro's allowed rate of return on equity. Phase 1 operating costs included Operations, Maintenance and Administration (OMA) expenses and asset-related costs. OMA expenses largely comprised BCTC's labour costs and services provided by BC Hydro, Accenture Business Services (ABS) and other contractors in relation to BCTC's business operation and assets. The cost of maintenance work on the transmission system performed by BC Hydro Field and Engineering service providers continued to be borne by BC Hydro during Phase 1. The asset-related costs comprised depreciation and amortization, taxes and grants and finance charges relating to BCTC assets. The extent of business risk assumed by BCTC was limited as BC Hydro was responsible for and indemnified BCTC for certain potential losses incurred by BCTC in excess of \$50 million. Given this significant economic dependence, BCTC's financial accounts were consolidated with BC Hydro's during Phase 1.

Phase 1 was an interim stage prior to BCTC becoming an independent transmission entity regulated by the British Columbia Utilities Commission (BCUC). As a required step towards establishing its own transmission tariff, BCTC

BCTC's Business Model (continued)

submitted its own Open Access Transmission Tariff (OATT) application to the BCUC on August 3, 2004. On March 8, 2005, BCTC received interim approval from the BCUC to adopt the existing terms and conditions of BC Hydro's Wholesale Transmission Services tariff as its own, effective April 1, 2005. This enabled BCTC to complete its transition to an independent transmission provider as contemplated by the *Transmission Corporation Act* and the Key Agreements. BCTC ceased Phase 1 operations and became a fully regulated transmission utility.

BCTC began its Phase 2 operations as a rate-regulated entity commencing April 1, 2005 and as a result, its financial structure and business risks changed significantly from those of Phase 1. Given the significant changes in BCTC's financial structure, the audited financial statements for the year ended March 31, 2006 are not fully comparable to the audited financial statements for the year ended March 31, 2005, which reflect Phase 1 operation. An overview of the differences between Phase 1 and Phase 2 financial results are discussed in the relevant sections of management's discussion and analysis.

Highlights and Significant Transactions

BCTC's first year operating as a rate-regulated transmission utility saw many changes to the business operation. Business systems and control processes had to be revised or redesigned to facilitate the implementation of the new OATT tariff, capital plan and other regulatory decisions, Key Agreements and service level agreements. The high level of capital expenditures including the System Control Modernization Project (SCMP), Vancouver Island Transmission Reinforcement Project (VITR), sustaining capital programs and other customer and load driven projects placed significant demands on BCTC resources in F2006 and will continue over the next few years. We also saw a significant increase in the number of requests for Point-to-Point services and interconnection studies from Independent Power Producers (IPPs) and other transmission customers. In addition, BCTC undertook a large number of generator interconnection studies for BC Hydro's Call for Tender Process.

Comparing to F2005, the significant changes in F2006 are highlighted below.

Regulation

BCTC is regulated by the BCUC (which administers and operates under the *Utilities Commission Act*) and as part of that regulation, BCTC is required to file applications to set the tariff rates that are to be charged to customers. These rates are designed to generate sufficient revenue to recover all prudently incurred operating expenses and asset related costs and also earn an allowed return on deemed equity which is determined in accordance with Special Direction No. 9. Additionally, BCTC is required to file capital expenditure plans and obtain BCUC approval for BCTC's own capital expenditures and for the additions and improvements to the BC Hydro transmission system. For major expenditure projects or projects where there is deemed to be a high risk, a certificate of public convenience and necessity (CPCN) is required from BCUC as part of the approval process.

In December 2004, BCTC submitted an application to BCUC for the F2006 revenue requirements which formed the basis of the open access transmission tariff (OATT) rates. The transmission revenue requirement included both BC Hydro and BCTC cost for providing transmission services. The rates were approved in June 2005 through a negotiated settlement process and are billed to customers as a single combined charge under BCTC's OATT tariff.

Another key aspect of rate regulation is the establishment of deferral accounts which allows actual and forecast variances for certain revenue and costs to be recovered or refunded through future rates. These deferral accounts are contemplated in the Key Agreements to mitigate financial risks to which BCTC is exposed and that it cannot accept due to its capital structure. Special Direction No. 9 allows for the establishment of deferral accounts and these were approved through the BCUC in October 2004.

Highlights and Significant Transactions (continued)

OATT

Transmission rates are set to recover the costs of providing transmission services, including a return on equity (Transmission Revenue Requirement). The Master Agreement sets out BCTC's authority and responsibility for designing, developing and applying to the BCUC for approval of Transmission Revenue Requirement, which includes both BCTC and BC Hydro transmission costs, to be recovered through OATT rates. There are three components to the Transmission Revenue Requirement:

1. BC Hydro Owner's Revenue Requirement;
2. BC Hydro's Asset Management and Maintenance Revenue Requirement; and
3. BCTC Revenue Requirement.

Under the OATT arrangement between BC Hydro and BCTC, the recovery of Asset Management and Maintenance Revenue Requirement is assigned by BC Hydro to BCTC as payment for the asset management and maintenance services provided by BCTC to BC Hydro under the Asset Management and Maintenance Agreement. For the year ended March 31, 2006, \$90.2 million was assigned by BC Hydro to BCTC.

BCTC is responsible for the administration of the tariff including offering and scheduling of transmission services and billing and collection of OATT revenues. BC Hydro and BCTC share the OATT revenue earned from Network and Point-to-Point Services based on their proportionate share of the total revenue requirement to total revenue requirement. The percentage split is 88.6% to the account of BC Hydro and 11.4% to the account of BCTC. Revenue from ancillary services is earned 100% by BCTC, as the cost of providing ancillary services is incurred solely by BCTC.

BCTC bears the financial responsibility for funding any shortfalls or receiving surpluses in the total transmission revenue for each fiscal year. The BCUC has approved a Revenue Deferral Account to record the variances in revenues for disposition through future regulatory decisions. Consequently, BCTC's revenue deferral account includes a portion pertaining to BC Hydro Owner's revenue requirement for transmission services. During the year ended March 31, 2006, BCTC billed \$584.0 million in OATT revenues (F2005 - Nil) which is \$18.0 million higher than the amount approved by the BCUC, resulting in this amount being set up in the Revenue Deferral Account as at March 31, 2006.

	Apportioned to BC Hydro	Apportioned to BCTC	Total
OATT Revenue Earned during F2006	\$ 508.6	\$ 75.4	\$ 584.0
Assignment of Asset Management and Maintenance from BC Hydro to BCTC	(90.2)	90.2	0.0
	418.4	165.6	584.0
Transmission Revenue Requirement Approved by the BCUC	403.5	162.5	566.0
Revenue surplus	14.9	3.1	18.0
BCTC's responsibility for revenue surplus	(14.9)	14.9	0.0
Revenue Deferral Account at March 31, 2006	\$ 0.0	\$ 18.0	\$ 18.0

Under the Master Agreement, BCTC bills customers for the total amount to be recovered for BC Hydro and BCTC, collects payments from OATT customers and transfers the proportionate share of BC Hydro's Owner's Revenue Requirement to total Transmission Revenue Requirement to BC Hydro's bank account on a monthly basis. The balance, representing the proportional share of the total of Asset Management and Maintenance and BCTC Revenue Requirement components to total Transmission Revenue Requirement, remains with BCTC. Any excess or shortfall between actual payments to BC Hydro and its share of the approved transmission revenue requirement is settled 60 days following the end of each fiscal year. At March 31, 2006, BC Hydro owes BCTC \$15.3 million (F2005 - Nil) for the excess remittances made during the year.

Highlights and Significant Transactions (continued)

Capital Plan

BCTC is responsible for developing a capital plan for BC Hydro's transmission projects and BCTC's own projects and submitting them to the BCUC for review and approval. In March 2005, BCTC filed the Transmission System Capital Plan, F2006 - F2015 under section 45(6) and (6.1) of the *Utilities Commission Act*, seeking approval for capital projects starting in F2006 and F2007. In September 2005, BCUC rendered its decision approving BCTC's F2006 and F2007 expenditures, with some adjustments. In January 2006, BCTC submitted a Transmission System Capital Plan, F2006 - F2015 Update Filing to the BCUC seeking approval for certain projects for which expenditures are planned for F2006 and F2007. The decision on proposed new projects is pending.

Accounting for Rate Regulated Operations

With the establishment of deferral accounts commencing April 1, 2005, BCTC adopted the accounting and reporting of regulatory assets and liabilities for financial reporting purposes. The recognition and measurement of regulatory assets and liabilities is acceptable under Canadian generally accepted accounting principles. A deferral account is a mechanism approved by the regulator for use by rate-regulated entities, which allows for the refund or recovery of variances between a financial forecast used for rate-setting purposes and the actual financial results. BCTC has five deferral accounts approved by the BCUC. At March 31, 2006, BCTC deferral accounts reflected \$23.4 million (F2005 - Nil), including interest, in regulatory liabilities which represents an amount owing to OATT customers as OATT revenues were higher than the forecast of transmission costs, including an allowed return on equity, on which rates were based. As part of F2007 revenue requirement application, BCTC will be seeking BCUC approval to return certain deferral account balances to its customers.

In May 2005, the Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (CICA) released Accounting Guideline AcG-19 *Disclosures by Entities Subject to Rate Regulation*, requiring disclosures of the nature and economic effects of rate regulation on an entity's financial statements. BCTC adopted AcG-19 and disclosed the effects of rate regulation in its financial statements for the year ended March 31, 2006.

Service Level Agreements

Pursuant to the Key Agreements, BCTC and BC Hydro negotiated and signed new commercial service level agreements. These agreements cover the provision of non-tariff services between the two companies. Commencing April 1, 2005, BC Hydro Engineering Services and Field Services business units provide engineering, maintenance and construction services to BCTC. The cost of maintenance work performed by BC Hydro service providers on transmission assets is charged to BCTC and is reflected in the Company's financial accounts. The cost of engineering and construction services on transmission capital projects continue to be borne by BC Hydro as new transmission assets are funded and owned by BC Hydro.

In addition to offering transmission services under its OATT tariffs, BCTC also provides system operation and asset management and maintenance services to BC Hydro's Generation and Distribution Lines of Business. These non-tariff revenues reduce transmission costs to be recovered through OATT rates.

Risks

Commencing April 1, 2005, BC Hydro no longer indemnifies BCTC for certain potential losses incurred by the Company in excess of \$50 million. BCTC is responsible for managing all of the business risks associated with its business operation including those relating to BC Hydro transmission capital expenditures. Through an enterprise risk management framework, risks are identified and managed accordingly.

Overview of F2006 Results

The selected financial and Full Time Equivalents (FTEs) information provided in the table below highlights the changes between F2006 and F2005 actual results and the variances between F2006 Actual and F2006 Plan.

Selected Annual Financial and FTEs Information

	F2006 Actual	F2005 Actual	Variance from F2005 Actual	F2006 Plan	Variance from F2006 Plan
Revenues	\$ 205.3	\$ 94.8	\$ 110.5	\$ 198.6	\$ 6.7
Total Expenses	183.7	91.4	92.3	194.9	(11.2)
Deferral Accounts	8.1	—	8.1	—	8.1
Net Income	13.5	3.4	10.1	3.7	9.8
Total Assets	137.3	93.7	43.6	119.1	18.2
Total Liabilities	99.5	69.4	30.1	91.2	8.3
Shareholder's Equity	37.8	24.3	13.5	27.9	9.9
Debt	37.2	37.3	(0.1)	64.2	(27.0)
Actual Debt to Equity Ratio	55:45	55:45			
Deemed Debt to Equity Ratio	59:41	N/A			
DMA/GWh-km (in cents)	19.0	18.9	0.1	20.0	(1.0)
Capital Expenditures					
Assets owned by BCTC	\$ 21.4	\$ 13.3	\$ 8.1	\$ 49.2	\$ (27.8)
Transmission assets owned by BCHydro	123.7	122.1	1.6	153.5	(29.8)
Total Capital Expenditures	\$ 145.1	\$ 135.4	\$ 9.7	\$ 202.7	\$ (57.6)
Full Time Equivalents (FTEs)*	340	328	12	329	11

* FTEs are defined as regular and temporary employees of BCTC.

F2006 Actual vs. F2005 Actual

Total revenues increased by \$110.5 million from \$94.8 million in F2005 to \$205.3 million in F2006 as a result of higher transmission costs, associated with the change in cost structure, that are recovered through OATT rates. BCTC earned \$79.2 million from its tariff services compared to nil for the same period last year. BCTC also earned \$90.2 million in Asset Management and Maintenance (AMMA) Fees. For the year ended March 31, 2006, the non-tariff service fee revenue totaled \$34.7 million compared to \$93.4 million for the same period last year. The decrease was largely to the recovery of Transmission Asset Management and Maintenance costs through Tariff and AMMA Fee.

BCTC's cost structure changed significantly from the last fiscal year as a result of the service level agreements with BC Hydro's service providers and cost of market associated with the provision of ancillary services under OATT tariff. As a result, total expenses increased by \$92.3 million from \$91.4 million in F2005 to \$183.7 million in F2006.

BCTC adopted rate-regulated accounting commencing April 1, 2005 and the \$8.1 million deferral accounts recorded for the year ended March 31, 2006 was based on the deferral mechanisms approved by the BCUC. The deferred balances represent the differences between actual point-to-point revenues, cost of market and certain operating expenses from the forecast used for establishing F2006 rates. The deferral amount reduced net income reported for the period.

Overview of F2006 Results (continued)

For F2005, BCTC earned a fixed net income of \$3.4 million based on earning 13.91% return on its year end equity amount. For 2006, BCTC earned \$13.5 million net income as actual revenues, including adjustment for deferral accounts, were in excess of actual expenses. In order to build its equity to a level required to assume the risks inherent in BCTC's business model, the shareholder has approved BCTC retaining all earnings until F2009. The \$13.5 million increase in equity from \$24.3 million at March 31, 2005 to \$37.8 million at March 31, 2006 reflected the retention of all earnings for F2006.

Total assets increased by 46.5% from \$93.7 million a year ago to \$137.3 million at March 31, 2006. The significant increase was primarily due to higher level of short term investments from excess cash flow and the effects of the Phase 2 business model resulting in a higher level of accounts receivables from BC Hydro. Debt at March 31, 2006 was \$37.2 million, \$0.1 million lower than a year ago due to capital lease repayment and amortization of debt premium. Debt to equity ratio remains stable at 55:45 based on financial conditions at the end of March 31, 2006 and March 31, 2005. Compared to the deemed capital structure of 59:41, BCTC's debt is lower and equity is higher than the deemed level as at March 31, 2006.

BCTC invested \$21.4 million in its own assets during F2006. Capital expenditures in assets owned by BCTC were \$8.1 million higher than the same period last year. The increase in expenditures was primarily due to SCMP project expenditure partially offset by lower business support systems expenditure. BCTC expended \$123.7 million on transmission capital projects on behalf of BC Hydro during F2006 (F2005 - \$122.1 million). This level of capital expenditure is comparable to last year's level as BCTC continued to replace assets reaching the end of their useful life as well as investing in system reinforcement and expansion to accommodate load growth and generator interconnection requests.

F2006 Actual vs. F2006 Plan

Compared to Fiscal 2006 Plan, actual total revenue of \$205.3 million are \$6.7 million higher than plan. Of this amount, \$3.1 million relates to higher DATT revenue primarily due to higher rates and volumes. For rate regulation purposes, this amount was transferred to a Revenue Deferral Account and will be refunded to transmission customers once approval is received from the BCUC on the clearing of this deferral account in F2007.

Actual expenses for the year totaled \$183.7 million and are \$11.2 million lower than F2006 Plan. The lower expenditures are primarily due to lower operating costs and depreciation expense partially offset by higher finance charges. Of the \$11.2 million favourable variance, \$5.0 million has been transferred to four different cost deferral accounts. The disposition of these deferral amounts will be reviewed by the BCUC as part of BCTC's F2007 revenue requirement application.

F2006 Plan does not include an estimate for deferral accounts as BCTC's revenue is forecast to recover the forecast transmission cost, including an allowed return on equity.

Special Direction No. 9 sets out the mechanism for determining BCTC's deemed capital structure for rate-setting purposes. As amended by Order in Council 752, approved and ordered on October 19, 2005, BCTC's deemed equity component is set at 40.7% of total forecast average debt and equity, commencing April 1, 2005. BCTC is allowed to earn an annual rate of return on its deemed equity equivalent to the pre-tax annual rate of return allowed by the BCUC to the most comparable investor-owned energy utility regulated under the *Utilities Commission Act*. F2006 planned net income of \$3.7 million was determined based on earning an allowed rate of return of 13.51% and was approved by the BCUC.

Total assets are \$18.2 million higher at the end of March 2006 as the effects of Phase 2 business model contributed to higher accounts receivable and accounts payables on the balance sheet. Debt is \$27.0 million lower than plan primarily due to reduced financing requirements. BCTC's capital expenditures are \$27.8 million below plan primarily due to the timing of SCMP expenditures. Investment in transmission assets undertaken by BC Hydro is \$29.8 million below plan primarily due to a number of IIP projects not materializing in F2006 and delays in project schedules.

Full Time Equivalents (FTEs)

BCTC defines FTEs as the total number of regular and temporary employees at the end of the year. The 340 FTEs at March 31, 2006 are composed of 321 regular employees and 19 temporary employees hired to backfill vacancies or to perform temporary work assignments. BCTC has 31 vacancies at the end of the fiscal year and is actively recruiting to fill these positions.

Overview of F2006 Results (continued)

Faced with growing demand on the transmission system and recognizing the need to respond effectively to increasing regulatory and public expectations, BCTC performed an assessment of current resource capability and resource requirements. The assessment highlighted the following issues:

- Resource gap in capital planning and project execution, regulatory and community/stakeholder relations,
- Increase in staffing to facilitate the business and operational transition associated with the implementation of the new system control centre, and
- Anticipated retirements.

While BCTC is able to meet some requirements through redeployment of existing headcount, a number of new positions were identified during F2006.

Results of Operations

BCTC's results of operations for the years ended March 31, 2006 and March 31, 2005 are summarized below.

	F2006 Actual	F2005 Actual	Variance from Actual
Revenues			
Tariff	\$ 79.2	\$ —	\$ 79.2
Asset Management and Maintenance Fee	90.2	—	90.2
Service fees and other	34.7	93.4	(58.7)
Investment Income	1.2	1.4	(0.2)
Total Revenue	205.3	94.8	110.5
Expenses			
Cost of Market	4.5	0.7	3.8
OMA	157.2	71.6	85.6
Taxes and Grants	0.3	0.3	—
Depreciation	19.7	17.3	2.4
Finance Charges	2.0	1.5	0.5
Total Expenses	183.7	91.4	92.3
Net Income before Deferral Accounts Transfers	21.6	3.4	18.2
Deferral Accounts	(8.1)	—	(8.1)
Net Income	\$ 13.5	\$ 3.4	\$ 10.1

F2006 Actual vs. F2005 Actual

Tariff Revenues

The implementation of the OATT tariff was done in two steps. On April 1, 2005, BC Hydro's Wholesale Transmission Service tariff was rolled over and, following BCUC approval of OATT's rate design, BCTC implemented its new tariff effective March 1, 2006. Business practices and customer billing system changes were made to effect the new tariff. BCTC conducted a series of customer meetings to explain the new OATT tariff to ensure a smooth transition for our customers. The \$79.2 million tariff revenues for the year ended March 31, 2006 reflects 11 months of transmission services revenue earned under the initial BCTC Wholesale Transmission Services (WTS) Tariff, which was simply a rollover of BC Hydro's WTS Tariff, and one month of revenue earned under the new OATT Tariff. Transmission services

Results of Operations (continued)

are provided for network services, long-term and short-term point-to-point services (PTP) and ancillary services. Also included in tariff revenues is income from the General Wheeling Agreement with Fortis BC. BCTC did not earn any tariff revenue in F2005 as it did not establish its own tariff until April 1, 2005.

Under the Master Agreement, BCTC is responsible for administering the OATT tariff to recover both BC Hydro's and BCTC's transmission cost of service, including an allowed return on equity. The following table shows the total tariff revenues billed under the OATT tariff during F2006. The 88.6% and 11.4% split between BC Hydro and BCTC for network and point-to-point services is based on BCUC approved revenue requirements. BC Hydro's share and BCTC's share of the OATT revenue are recorded in the individual companies' financial accounts.

	Tariff Revenue Billed under BCTC's Tariff	BC Hydro's Revenue	BCTC's Revenue
Network Integrated Transmission Services	\$ 504.0	\$ 446.5	\$ 57.5
Point-to-Point Services			
-Long-term	24.6	21.8	2.8
-Short-term	45.4	40.3	5.1
Ancillary Services	10.0	—	10.0
Total OATT Revenues	\$ 584.0	\$ 508.6	\$ 75.4
FortisBC General Wheeling Agreement	3.8	—	3.8
Total Tariff Revenues	\$ 587.8	\$ 508.6	\$ 79.2

Network integrated transmission services represent a fixed monthly fee charged to BC Hydro's distribution business unit for the use of the transmission system to serve domestic retail customers including residential, commercial and industrial customers. The \$504.0 million annual network charge was established as part of the F2006 transmission revenue requirement and has been approved by the BCUC.

Long-term Firm PTP transmission service is sold in yearly service increments. Long-term PTP Firm volume is based on confirmed transmission contracts which contain yearly rollover rights that allow the service to be extended. Long-term contracts that are converted to short-term uses under BCTC's business practices are treated as short-term Transmission for the time that they are converted. During F2006, BCTC sold 4,189,502 MWh in long-term PTP services at an average rate of \$5.88/MWh. Approximately \$8.3 million of long-term firm contracts were converted to short-term contracts during the year.

Short-term PTP transmission service is sold in hourly, daily, weekly, and monthly service increments based on market demands. Short-term services may be firm or non-firm based on customer requests. During F2006, BCTC sold 10,932,543 MWh in short-term PTP services at an average rate of \$4.16/MWh.

On July 30, 2005, BCTC started to offer dynamic scheduling service which is a new firm transmission service used for the real time delivery of operating reserves to the receiving control area. This service allows transmission customers selling to the California Ancillary Services market. BCTC facilitated the use of dynamic scheduling through the conversion of long-term contracts and sale of short-term PTP services. Of the \$45.4 million in short-term point-to-point revenues, \$6.8 million relates to the sale of dynamic scheduling services.

Ancillary services are needed with point-to-point transmission service to maintain reliability within and among the Control Areas affected by the transmission service. They include Scheduling, System Control and Dispatch Service, Reactive Supply and Voltage Control, Regulation and Frequency Response, Energy Imbalance, Operating Reserves and Loss Compensation service. BCTC provides scheduling and dispatch services to all transmission customers and other ancillary services to those customers who do not self-supply. During F2006, BCTC earned \$6.4 million in scheduling and dispatch and \$3.6 million in other ancillary revenues. This \$3.6 million represents recovery of ancillary services cost incurred by BCTC and flowed through to transmission customers.

Results of Operations (continued)

Asset Management and Maintenance revenue requirement is included in BC Hydro's revenue requirement and is assigned to BCTC under the Key Agreement as payment for transmission asset management and maintenance services. The \$90.2 million was approved by the BCUC.

BCTC provides transmission services to FortisBC under the General Wheeling Agreement (GWA) which expires in 2045. This agreement provides FortisBC with the rights to transfer its power, up to nominated amounts, from the Kootenay Interconnection over the BC transmission system to Vernon Terminal, Creston and Princeton. GWA wheeling from South Slocan to the Okanagan Interconnection Point is take-or-pay based on a 5-year rolling nomination. For F2006, FortisBC exercised the rights to transfer from the Kootenay Interconnection to Vernon Terminal and Creston only; no rights to transfer power to Princeton were exercised under this agreement. The \$3.8 million wheeling charges to FortisBC for using the transmission system under this agreement are in accordance with Rate Schedule 21.

Service Fees and Other Revenues

\$ (millions)	F2006 Actual	F2005 Actual	Variance from Actual
Services provided to BC Hydro:			
- Substation Distribution Asset Management	\$ 11.3	\$ —	\$ 11.3
- Generation Related Transmission Asset Management	10.2	—	10.2
- Distribution Operations	6.1	2.6	3.5
- Generation Dispatch	1.1	1.1	0.0
- Transmission System Operation	—	61.4	(61.4)
- Transmission Asset Management and Maintenance	—	26.9	(26.9)
- Telecom	1.7	—	1.7
- Other	2.3	1.1	1.2
	32.7	93.1	(60.4)
Services provided to other customers	1.2	0.3	0.9
One-time incentive payment	0.8	—	0.8
Service Fees and Other Revenues	\$ 34.7	\$ 93.4	\$ (58.7)

Pursuant to the establishment of service level agreements with BC Hydro effective April 1, 2005, BCTC provides various operations and maintenance services to BC Hydro generation and distribution business units. Commencing April 1, 2005, BCTC also earns Telecom revenue which relates to microwave use by BC Hydro for its internal dialing system. Other services provided to BC Hydro include engineering studies and design work. These services totaled \$32.7 million for the year ended March 31, 2006.

Prior to April 1, 2005, BCTC operated on a cost recovery basis in accordance with Phase 1 of the Master Agreement and recovered \$93.1 million from BC Hydro, a level sufficient to cover its actual cost of operation and earn a \$3.4 million in return on equity. After becoming a rate-regulated entity as of April 1, 2005, these services fees are replaced by Asset Management and Maintenance service revenues which are included under Tariff Revenues.

BCTC also earned \$1.2 million revenues for services provided to IPPs and other customers for engineering studies to investigate the requirements for interconnecting the independent power generation facilities to the transmission system and to perform customer requested relocation work.

On November 30, 2005, the Province of British Columbia announced a new negotiating framework which provided a one-time incentive payment to BC public sector employees for settlement of their compensation agreement by March 31, 2006. In March 2006, BCTC and the Canadian Office Employees' Union, Local 738 (COPE) ratified a four-year agreement and formally advised its management and professional employees that they would be receiving the negotiating framework one-time incentive payment. Accordingly, BCTC received \$0.8 million from the Province for payment to all its eligible employees.

Results of Operations (continued)

Cost of Market

	F2006 Actual	F2005 Actual	Variance from Actual
Ancillary Services Costs	\$ 3.6	\$ —	\$ 3.6
Congestion Management Costs	0.9	0.7	0.2
Total Cost of Market	\$ 4.5	\$ 0.7	\$ 3.8

Cost of market expenses for the year ended March 31, 2006 totaled \$4.5 million compared to \$0.7 million for the same period last year.

Cost of market includes ancillary services and congestion management costs. The ancillary services cost relates to the provision of ancillary services under the OATT tariff for those transmission customers that do not self-supply those services as part of their point-to-point service requests. These services include loss compensation services, scheduling and dispatch, reactive supply and voltage control, regulation and frequency response, energy imbalance and operating reserves. The ancillary service costs in F2006 totaling \$3.6 million were mostly for loss compensation services purchased from BC Hydro which was a flow-through cost to transmission customers and was fully offset by ancillary services revenue. As BCTC's OATT tariff was established effective April 1, 2005, no ancillary services cost was incurred in F2005.

Congestion management costs include the purchase of operating reserves, transmission locational credits, unscheduled flow mitigation and operating agreements between control areas. These costs are incurred to maximize transmission capacity and provide additional transmission availability for customers. Of the \$0.9 million incurred in F2006, \$0.7 million relate to an agreement with Boston Bar Limited Partnership to provide transmission locational credits. The \$0.2 million increase is due to the increase of transmission locational credits and operating reserves.

Operations, Maintenance and Administration Expenses (OMA)

Certain operations, maintenance and administration expenses (OMA) that were previously accounted for and reported by BC Hydro were assumed by BCTC effective April 1, 2005. These costs are now shown as BCTC's OMA costs. This change in cost structure between BC Hydro Transmission and BCTC is contemplated in the Key Agreements and Service Level Agreements in place between the two organizations.

OMA expenses are incurred to plan, operate, manage and maintain the transmission system and assets and to provide open, non-discriminatory access to BC's electric transmission system. In F2006, OMA expenses increased by \$85.6 million from the previous year primarily due to the cost structure changes between Phase 1 and Phase 2. Commencing April 1, 2005, BCTC contracts with BC Hydro and other service providers directly for engineering, maintenance and vegetation management services in relation to the management and maintenance of transmission and substation distribution assets. These costs were incurred by BC Hydro in F2005. As a result, BCTC's costs relating to BC Hydro and other service providers increased by \$83.9 million. Other OMA cost increases include higher labor costs, insurance expense and facilities cost associated with additional office space. Offsetting these cost increases are higher overhead allocation to capital projects, lower ABS expense and asset utilization fee write-off.

Results of Operations (continued)

OMA expenses, categorized as Operations, Maintenance and Administration expenses based on major work activities, are shown in the table below:

	F2006 Actual	F2005 Actual	Variance from Actual
Operations	\$ 38.0	\$ 36.0	\$ 2.0
Maintenance	94.9	14.4	80.5
General and Administration	24.3	21.2	3.1
Total OMA	\$ 157.2	\$ 71.6	\$ 85.6

Operations include the real time operation of the transmission system, system planning and performance analysis and market/tariff operation and administration. Operations expense increased by \$2.0 million or 5.6% primarily due to higher labour cost and Western Electricity Coordinating Council fee.

Maintenance relates to the asset management and maintenance of the transmission system and substation distribution assets. Based on asset management strategies and standards, BCTC performed transmission line, station and vegetation management annually to maintain system reliability. The cost increase in F2006 of \$80.5 million is primarily due to BCTC procuring maintenance services directly from BC Hydro and other service providers.

General and Administration include oversight and strategic management of BCTC business operations as well as enterprise-wide processes and activities provided to business users within BCTC and its service providers. The cost increase in F2006 of \$3.1 million is due to higher labour cost, including the \$0.8 million one-time incentive payment from the Province, bad debt expense associated with the Grit West loan advances, insurance premium and facilities costs partially offset by lower legal and ABS costs and higher overhead allocation to capital expenditures.

Taxes and Grants

By regulation, BCTC is subject to section 34 of the *Hydro and Power Authority Act* in respect of property taxes. Accordingly, BCTC is assessed school taxes and pays grants in lieu of municipal or similar taxes on its property. BCTC paid \$0.3 million in school taxes and grants in lieu of taxes for its existing system control center and reimbursed BC Hydro for taxes and grants in lieu relating to the area control centers under the terms of the lease agreements for each of F2006 and F2005.

Depreciation and Amortization

Depreciation and amortization expense for the year ended March 31, 2006 is \$2.4 million (F2005 - \$17.3 million) higher than the previous year as a result of the accelerated depreciation on existing control center assets and the depreciation relating to the \$13.5 million new assets in service during the year. The SCMP project, approved by the BCUC in February 2005, will replace all the existing control centers and equipment in October 2008. As a result, the net book value of these existing control center assets are being depreciated over a period shorter than the original useful life to ensure these assets are fully depreciated by October 2008 when SCMP goes into service. In April 2005, the new Oracle enterprise financial system was completed and placed in service at a total cost of \$6.1 million. Other new assets placed in service include a new DATT customer reporting database and leasehold improvement.

Deferral Accounts

BCTC currently has 5 deferral accounts:

- Revenue Deferral Account (IRDA) approved in Commission Order G-96-04 - This deferral account allows BCTC to accrue annual variances between forecast and actual transmission revenues.
- Emergency Maintenance Deferral Account (EMDA) approved in Commission Order G-96-04 - This deferral account captures variances between forecast and actual non-capital emergency maintenance expenditures incurred as a result of unanticipated major equipment failures, extreme weather, wildfires, or similar events.

Results of Operations (continued)

- Cost of Market Deferral Account (COMDA) approved by Commission Order G-96-04 – This deferral account captures all variances between forecast and actual Cost of Market expenditures. Cost of Market Expenditures include:
 - Congestion management expenses relating to the purchase of operating reserves, transmission location credits, unscheduled flow mitigation and operating agreements between control areas.
 - Ancillary services expenses BCTC incurs for all generation-based ancillary services that it, in turn, sells to customers on a cost flow-through basis. Ancillary Service expenses have corresponding Ancillary Service revenues, therefore any over or under expenditures net to zero based on the revenue collected for these services.
- Regulatory Expenditures Deferral Account (REDA), approved by Commission Order G-96-04 – This deferral account permits BCTC to recover the variances between forecast and actual regulatory costs. These costs include BCTC's counsel, experts and staff, hearing costs associated with the applications, and Intervenor costs as approved by the BCUC.
- Grid West Expenditures Deferral Account (GWEDA), approved by Commission Order G-60-05 – This deferral account recovers the variances between forecast and actual expenses for BCTC's participation in the Grid West Initiative. These costs include BCTC's counsel, consultants, travel and other out-of-pocket expenses incurred as a result of participation.

The System Control Center Modernization Study deferral account has been rolled into the SCMP capital project expenditure and the disposition of the \$2.0 million study costs will be reviewed upon project completion in F2009.

Each deferral account accrues interest monthly on the balance recorded in the deferral account. The interest is based on BCTC's annual weighted average cost of debt, which, for F2006 was 4.2%. The balances recorded in each deferral account at March 31, 2006, including interest, are:

	F2006 Actual	Approved	Deferral Amounts
DATT Revenue	\$ 584.0	\$ 566.0	\$ 18.0
- BCTC's share of approved transmission revenue requirement			3.1
- BC Hydro's share approved transmission revenue requirement			14.9
Emergency Maintenance Expenditures	0.7	2.0	1.3
Cost of Market	4.5	5.8	1.3
Regulatory Cost	1.4	3.1	1.7
Grid West Cost	0.8	1.5	0.7
Total Deferral Accounts before Interest			\$ 23.0
Accrued Interest			0.4
Total Deferral Accounts at March 31, 2006			\$ 23.4

BCTC's deferral accounts are subject to review and approval by the BCUC before the account balances can be returned to customers.

F2006 Actual vs. F2006 Plan

Under the *Budget Transparency and Accountability Act* (BTAA), Crown agencies such as BCTC are required to include in their annual report the actual performance for the fiscal year then ended against the planned performance submitted in the annual service plan. The F2006 Plan shown below is the financial plan submitted by BCTC in its September 2005 Service Plan Update. A copy of this Service Plan Update is available on BCTC's website at www.bctc.com.

Results of Operations (continued)

	F2006 Actual	F2006 Plan	Variance from Plan
Revenues			
Tariff	\$ 79.2	\$ 76.1	\$ 3.1
Asset Management and Maintenance Fee	90.2	90.2	—
Service fees and other income	34.7	31.7	3.0
Investment Income	1.2	0.6	0.6
Total Revenue	205.3	198.6	6.7
Expenses			
Cost of Market	4.5	5.8	(1.3)
OMA	157.2	166.2	(9.0)
Taxes and Grants	0.3	0.3	(0.0)
Depreciation	19.7	21.5	(1.8)
Finance Charges	2.0	1.1	0.9
Total Expenses	183.7	194.9	(11.2)
Net Income before Deferral	21.6	3.7	17.9
Deferral Accounts	(8.1)	—	(8.1)
Net Income	\$ 13.5	\$ 3.7	\$ 9.8

Revenues are \$6.7 million or 3.4% higher than plan due to higher point-to-point transmission rates and volume, additional engineering studies performed for BC Hydro and IPPs and higher investment income.

Expenses are \$11.2 million or 5.7% below plan primarily due to lower OMA expenses, depreciation and cost of market expenses partially offset by higher finance charges. OMA expenses are \$9.0 million or 5.4% below plan prior to the \$5.0 million adjustment for deferral accounts due to:

- Cost savings and schedule changes for station maintenance work contributed to lower costs which were partially offset by increased vegetation management work. All planned maintenance work was completed during the year.
- Lower operating costs due to shifting requirements for legal, consulting, engineering and other professional services during the year.
- Certain legal and regulatory costs capitalized to major capital projects instead of expensed during the year.

Cost of market is \$1.3 million below plan primarily due to less demand for services from customers. Depreciation expense is below plan due to a \$3.1 million reduction in the accelerated depreciation of existing control center assets which are scheduled to be replaced by the new SCMP project in October 2008, partially offset by higher depreciation on assets in service. Finance charges are above plan due to lower capitalized interest associated with SCMP capital project and interest on deferral accounts.

Deferral accounts were not included in the F2006 as the plan was based on the forecast revenue and cost used for the determination of F2006 rates.

Summary of Financial Position

The following table provides summary information on BCTC's financial position at March 31, 2006 and March 31, 2005.

	F2006 Actual	F2005 Actual	Variance from Actual
Current Assets	\$ 70.1	\$ 26.5	\$ 43.6
Capital Assets	63.6	61.9	1.7
Other Assets	3.6	5.3	(1.7)
Total Assets	\$ 137.3	\$ 93.7	\$ 43.6
Current Liabilities	41.7	13.9	27.8
Long-term debt including capital lease	37.1	37.2	(0.1)
Other long-term liabilities	20.7	18.3	2.4
Total Liabilities	99.5	69.4	30.1
Shareholder's Equity	37.8	24.3	13.5
Total Liabilities and Shareholder's Equity	\$ 137.3	\$ 93.7	\$ 43.6

Current Assets

Current assets are \$43.6 million higher than a year ago primarily due to higher cash and short term investments and amounts due from BC Hydro, partially offset by reduction in prepaid expenses. Cash and short term investments are \$23.7 million higher as cash provided by operating activities during the year and the remaining proceeds from the debenture issued in the last fiscal year were not fully utilized to fund F2006 capital expenditures. The \$43.3 million cash and short term investments are expected to be fully utilized in F2007 to fund capital expenditures. Due from BC Hydro is \$20.2 million higher than last year's balance largely due to the \$15.3 million excess OATT revenue payment made to BC Hydro during the year and \$19.8 million in receivables for OATT and non-tariff services, partially offset by \$13.5 million in payables to BC Hydro service providers.

Capital Assets

Capital assets increased by \$1.7 million between March 31, 2006 and March 31, 2005. The increase in capital expenditures of \$21.4 million is largely offset by the \$19.7 million in depreciation expense.

Other Assets

Other assets decreased by \$1.7 million from a year ago primarily due to the \$0.5 million reduction in Grid West loan advances, \$0.5 million repayment of employee mortgage loans and a \$0.7 million reduction in long-term prepaid expenses relating to amortization of BC Hydro asset utilization fee.

In July 2001, BC Hydro and other Filing Utilities entered into a funding agreement with Grid West to enable the creation of Grid West as a new, regional independent transmission provider. With the establishment of BCTC in August 2003, responsibility for Grid West transferred from BC Hydro to BCTC. Under Article 10.1 [a] of the Master Agreement, the loan advances made to Grid West prior to BCTC establishment remained with BC Hydro. BCTC loan advances were \$1.0 million and \$0.5 million as at March 31, 2006 and March 31, 2005, respectively, under the original agreement and subsequent amendments. The funds advanced are in the form of an unsecured loan and are to be repaid, with interest, at the earlier of Grid West obtaining its own third party financing and the commencement of transmission services by Grid West. In January 2006, BCTC made a decision that the benefits identified for British Columbia does not justify the cost of continued participation in Grid West development. The loans to Grid West are currently unsecured and the agreement between BCTC and Grid West prohibits the voluntary encumbering of any of the Grid West Assets. On April 11, 2006, the Grid West Board of Directors voted to dissolve the corporation and wind-up its affairs. Grid West currently has few tangible assets that would serve as collateral for the outstanding loans to all Filing Utilities including BCTC. BCTC has determined that Grid West currently does not have the financial capacity to repay the loan or arranging third party financing and accordingly, the \$1 million loan advance was written off in F2006.

Summary of Financial Position (continued)

Current Liabilities

Current liabilities increased by \$27.8 million year-over-year primarily due to the \$23.4 million regulatory liabilities associated with the deferral accounts, \$6.3 million increase in trade payables as BCTC assumed direct contracting responsibilities for maintenance contractors and \$0.8 million in deferred revenue relating to customer deposits for studies and other work. Offsetting these increases was \$2.8 million reduction in bank indebtedness.

Long-term debt

Debt is comprised of the \$30.1 million debentures and \$7.0 million capital leases relating to the control centers for a total of \$37.1 million at March 31, 2006. The \$0.1 million reduction from the March 31, 2005 balance relates to the principal repayment on the capital lease and amortization of bond premium. No additional debt financing is required as cash flow from operations is sufficient to finance investing activities.

Other long-term liabilities

Year-over-year increase in other long-term liabilities is attributed to higher pension and post-retirement costs as well as employee time bank liabilities. Accrued pension and post-retirement liabilities increased from \$8.0 million at March 31, 2005 to \$10.0 million at March 31, 2006 primarily due to a decline in discount rate from 6.0% to 5.4%. Accrued time bank liabilities at March 31, 2006 were \$0.5 million higher than a year ago due to increased hours of time banked and the liabilities being accrued at the current higher rates of pay, compared to those at March 31, 2005.

Shareholder's Equity

Net income of \$13.5 million earned in F2006 contributed to the increase in Shareholder's Equity. The shareholder has approved BCTC retaining all earnings until F2009.

Liquidity and Capital Resources

Liquidity

The following table provides a summary of cash flow.

	F2006 Actual	F2005 Actual	Variance from Actual
Cash and cash equivalents, beginning of year	\$ 6.6	\$ 4.8	\$ 1.8
Cash provided by (used in):			
Operating activities	46.2	5.7	40.5
Investing activities	(18.3)	(31.3)	13.0
Financing activities	1.5	27.4	(25.9)
Increase in Cash	29.4	1.8	27.6
Cash and cash equivalents, end of year	\$ 36.0	\$ 6.6	\$ 29.4

Operating Activities

Cash flow from operations, after adjustment for working capital changes, totaled \$46.2 million, an increase of \$40.5 million from last year. Higher net income and working capital changes are the major factors contributing to this increase. Unlike during Phase 1 operations where BCTC earned a fixed net income as part of the service fee from BC Hydro, BCTC's net income is now determined based on the level of revenue earned relative to its expenses. During F2006, BCTC earned \$13.5 million in net income which is \$10.1 million higher than last year's fixed level of \$3.4 million. Working capital increased by about \$28.2 million due to the establishment of \$23.4 million in regulatory liabilities and \$6.5 million increase in trade payables, partially offset by \$2.3 million increase in Due from BC Hydro.

Liquidity and Capital Resources (continued)

Investing Activities

Cash used in investing activities decreased by \$13.0 million from last year primarily due to higher short term investments, partially offset by higher capital expenditures. Capital expenditures were \$20.8 million in F2006 compared to \$13.7 million in F2005 as BCTC continues to invest in the new system control center, which is scheduled for completion in October 2008. The higher level of capital expenditures is offset by the decrease of \$6.2 million asset utilization fee paid to BC Hydro and \$0.9 million reduction in other assets.

Financing Activities

Cash provided by financing activities in F2006 was \$1.5 million compared to \$27.4 million last year. There was no debt financing requirement during the year as BCTC has sufficient cash on hand to finance capital investments. BCTC received \$1.3 million payment from BC Hydro in relation to the supplemental benefit obligation assumed by BCTC for those employees who elected to transfer their accrued pension as at August 1, 2003 from BC Hydro to BCTC. As the supplemental plan is not a registered plan, the payment was received by the company to its general operating fund. Other cash from financing activities was provided by the \$0.3 million tenant inducement relating to the additional office space, partially offset by the \$0.1 principal repayment on the capital leases.

In May 2004, BCTC issued a \$30 million debenture and the proceeds were used to repay the \$30 million in short-term borrowings.

Capital Resources

Short term liquidity is provided through surplus cash invested in money market and other short term investments and funds from operations during the year, supplemented with short-term commercial paper borrowings from the Province of British Columbia as required. The Province limits short-term commercial paper borrowing to \$25 million. Additionally BCTC has arranged a \$5 million demand revolving credit facility for general corporate purposes with a chartered bank. The facility is available by way of Canadian or US dollar overdrafts, is priced at the prime rate for Canadian dollar overdrafts and the US base rate, respectively.

At March 31, 2006, BCTC has \$43.3 million in cash and short term investments primarily due to the decision to discontinue the segregation of \$17.6 million for meeting accrued employee obligations and lower requirement for capital expenditures during the year. These employee benefit obligations include post-retirement benefits, time bank liabilities and supplemental pension plan will be met through the general resources of the company. BCTC has no short-term borrowing and the bank credit facility was unused as at March 31, 2006.

Long-term financing is provided by the Province of British Columbia through an off-lending arrangement and the issuance of matching debentures to the Province. In May 2004 BCTC issued a \$30 million debenture, at a coupon rate of 4.3%, maturing in December 2008. No long-term debt was issued during F2006.

Transmission Capital Expenditures

Capital expenditures for control centers, information technology and office facilities are funded and owned by BCTC whereas those relating to the transmission system continue to be funded and owned by BC Hydro. The transmission capital expenditures continue to be accounted for and reported in BC Hydro's financial accounts as the owner of transmission assets and are not reflected in BCTC's financial statements.

Consistent with its mandate and under the Master Agreement with BC Hydro, BCTC is responsible for planning, constructing and obtaining regulatory approvals for the sustainment and expansion investments to BC Hydro's transmission system, and for entering into commitments and incurring expenditures on behalf of BC Hydro. BC Hydro funds all transmission capital expenditures approved by the BCUC or consented to by BC Hydro prior to BCUC approval. In the event that the BCUC determines that any capital expenditures in respect of the transmission system were imprudently incurred, BCTC will pay BC Hydro the amount of such expenditure not recoverable by BC Hydro through the transmission rates. As of May 8, 2006, no such imprudent expenditures were found by the BCUC and no payments have been made to BC Hydro.

Transmission Capital Expenditures (continued)

In order to ensure capital projects undertaken by BCTC are found to be prudent for recovery through future rates, BCTC's transmission system capital plans are a major component of operating and managing transmission capital expenditures. BCTC filed its first Transmission System Capital Plan under section 45(6) and (6.1) of the *Utilities Commission Act* in May 2004. The BCUC approved this plan in November 2004. In March 2005, BCTC filed its second Transmission Capital Plan seeking approval for projects commencing in F2006 and F2007 to be in public interest. In September 2005, the BCUC approved this capital plan with some exceptions and further direction. In January 2006, BCTC submitted a Transmission Capital Plan Update Filing seeking approval for those projects, not previously approved by the BCUC, that have expenditures commencing F2006 and F2007. The decision on this Transmission Capital Plan Update Filing is pending as of May 5, 2006.

Transmission capital expenditures for F2006 are summarized in the table below.

	F2006 Actual	F2005 Actual	Variance from Actual	F2006 Plan	Variance from Plan
Assets Owned by BCTC					
Control Center Technologies	\$ 12.2	\$ 1.9	\$ 10.3	\$ 37.8	\$ (25.6)
Business Support Systems	6.1	9.4	(3.3)	9.3	(3.2)
Information Technologies	1.9	1.4	0.5	1.9	0.0
Facilities	1.2	0.6	0.6	0.2	1.0
Total BCTC Capital Expenditures	\$ 21.4	\$ 13.3	\$ 8.1	\$ 49.2	\$ (27.8)
Transmission Assets Owned by BC Hydro					
Sustaining Capital	\$ 87.2	\$ 96.4	\$ (9.2)	\$ 95.4	\$ (8.2)
Growth Capital	41.4	34.2	7.2	73.1	(31.7)
Less: Contributions in Aid of Construction	(4.9)	(8.5)	3.6	(15.0)	10.1
Transmission Capital Investments on behalf of BC Hydro	\$ 123.7	\$ 122.1	\$ 1.6	\$ 153.5	\$ (29.8)

Assets Owned by BCTC

Capital expenditures totaled \$21.4 million in F2006, an \$8.1 million increase over the last year. The increase was related to the \$10.1 million expenditures for the development of a new system control center (SCMP Project) and \$6.1 million investment in business systems, partially offset by lower expenditures associated with the expenditures related to the completion of the new financial system.

The SCMP project is a \$134 million project approved by the BCUC in February 2005 to replace BCTC's System Control Centre and four Area Control Centres with a modern energy management system located at a new control center and backup site. In F2006, BCTC expended \$10.1 million on the schematic design and land purchase and the total project cost to March 31, 2006 was \$12.2 million. The building architect and the construction manager have been selected. Construction is expected to start in F2007 with in-service date forecast to be October 2008.

Compared to F2006 plan of \$49.2 million, BCTC's capital expenditures were \$27.8 million below plan primarily due to the timing of SCMP expenditures. The filing of CPCN was delayed and as a result approval was not received until February 2005. This delay in combination with a decision not to spend \$4 million to purchase new property for the back-up facility, and an extended procurement process for some of the other major project components resulted in a significant reduction in the planned expenditures for F2006. Expenditures for major project components are now scheduled to F2007 and F2008, but overall SCMP is still forecast to be completed within the budget and schedule authorized by the BCUC.

Transmission Capital Expenditures (continued)

Assets Owned by BC Hydro

Transmission capital expenditures are aimed at sustaining the current and future performance capability of the existing transmission system, at meeting customer and system requirements and at meeting industry reliability standards are categorized as sustaining capital. These investments extend the useful life of an asset, replace an asset at the end of its useful life, or reduce the risk of asset failures or other operational problems. During F2006, \$87.2 million (F2005 - \$96.4 million) was invested in station and protection and control equipment, transmission lines and cables and telecommunication equipment.

Capital expenditures made to meet growth in demand and interconnect generation resources are categorized as growth capital. For certain customer-requested projects, the customers are required to contribute toward the project cost based on established tariff. These customer payments are categorized as contributions in aid of construction. During F2006, BCTC invested \$41.4 million (F2005 - \$34.2 million) in growth capital, partially offset by \$4.9 million (F2005 - \$8.5 million) in contributions in aid of construction. The major growth capital projects are as follows:

Vancouver Island Reinforcement Project (VITR)

The VITR project is a \$245 million project to install a new 230kV submarine cable circuit from the Lower Mainland to Vancouver Island with an in-service date of October 2008. This new circuit will allow peak demand to be met on Vancouver Island, accommodate load growth and de-rating of existing high voltage direct current transmission circuits which are reaching end of life. This project is currently in the detailed definition phase and an application for a CPCN was filed with the BCUC in July 2005. During F2006, \$6.4 million was spent on this project and the total project cost to March 31, 2006 was \$9.2 million. The BCUC hearing concluded in May 2006. BCUC decision on this project is pending.

New Substation Projects

Five new substations are being constructed at a total cost of \$124.8 million to meet customer load growth in the Lower Mainland, Fort St. John, Langley, Whistler and Mission/Matsqui areas of the province. During F2006, \$30 million was spent on these projects and the total project cost to March 31, 2006 was \$32.7 million. Four of the five new substations will be completed in October - November 2006 and the remaining one is targeted for completion in October 2007.

Compared to F2006, actual transmission capital expenditures were \$29.8 million lower primarily because a number of planned IPP projects that did not proceed to construction phase.

Related Party Transactions

BCTC and BC Hydro have established commercial relationships pursuant to both OATT tariff and service level agreements. As both companies are owned by the same shareholder, the Province of British Columbia, the transactions between BCTC and BC Hydro are considered to be related party transactions for financial statement disclosure purposes.

The following are transactions with BC Hydro during F2006:

	F2006 Actual	F2005 Actual	Variance from Actual
\$ in millions			
Services provided by BCTC to BC Hydro	\$ 200.4	\$ 97.3	\$ 103.1
Services provided by BC Hydro to BCTC	(77.3)	(9.9)	(67.4)
Net service provided to BC Hydro	\$ 123.1	\$ 87.4	\$ 35.7

Services provided by BCTC to BC Hydro include both tariff and non-tariff services as well as \$5.8 million relating to capital overhead. The services provided to BC Hydro under OATT Services are based on the same terms and conditions applied to all transmission customers. Services provided by BC Hydro to BCTC are related to engineering, maintenance and construction services based on service level agreements. These services are provided at cost. The contractual obligations and financial commitments are discussed under the Future Financial Commitments section.

Future Financial Commitments

BCTC entered into contracts and commitments as part of its ongoing business operations and in relation to its capital projects. The following presents a summary of debt repayment and other major contractual obligations as at March 31, 2006.

	F2007	F2008	F2009	F2010	F2011 and beyond	Total
Reflected on the Balance Sheet:						
Debenture	\$ —	\$ —	\$ 30.0	\$ —	\$ —	\$ 30.0
Capital leases	0.6	0.6	0.6	0.6	13.3	15.7
	\$ 0.6	\$ 0.6	\$ 30.6	\$ 0.6	\$ 13.3	\$ 45.7
Not reflected on the Balance Sheet:						
Service Level Agreements	\$ 73.8	\$ 42.9	\$ 42.9	\$ 42.9	\$ 85.7	\$ 288.2
Accenture Business Services	5.4	5.3	5.3	5.3	15.7	37.0
Major Capital contracts	11.6	4.8	0.5	0.0	0.0	16.9
Operating leases	1.7	1.7	1.7	1.7	6.5	13.3
	\$ 92.5	\$ 54.7	\$ 50.4	\$ 49.9	\$ 107.9	\$ 355.4

Service Level Agreements

The service level agreements relate to the provision of engineering, construction, maintenance and inventory management services from BC Hydro service business units. These agreements contain terms and conditions that are consistent with the Key Agreements and define the contractual obligations of each party, the allocation of risk between the parties and the recognition that the parties are now two distinct independent entities.

The most significant service level agreement relates to the provision of maintenance services. Under this agreement BCTC contracts a fixed volume commitment of \$42.9 million per year for a period of six years commencing April 1, 2004 and ending March 31, 2010. The agreement provides for a further commitment of up to \$34.3 million per annum for other services. Following the initial six year period either BCTC or BC Hydro may elect to reduce the committed volume by up to 20% per annum.

The agreement relating to the provision of engineering services provides for BCTC to purchase up to \$46.2 million annually from BC Hydro for an initial six year term based on work requirement. At the end of the initial term the commitments can be reduced by 20% per annum by either party.

Accenture Business Services (ABS)

BC Hydro entered into a major outsourcing agreement with ABS commencing April 1, 2003. This contract was finalized prior to the establishment of BCTC. As contemplated in the Key Agreements signed between BC Hydro and BCTC in November 2003, BC Hydro and BCTC commenced negotiations for the separation terms for volume of services to be provided to BCTC. The negotiations for a separate BCTC agreement were put on hold in June 2005 pending the finalization of a Permanent Pricing Methodology (PPM) between BC Hydro and ABS under the Master Services Agreement (MSA). BC Hydro and ABS are now in the process of finalizing PPM. BC Hydro and Accenture signed a term sheet dated August 31, 2005 amending their agreement and are now in the process of finalizing the Amended Master Services Agreement.

BCTC is operating under an interim agreement between BCH/ABS/BCTC for BCTC to take services from ABS until a separate contract is completed. BCTC is currently negotiating a letter agreement to establish new pricing under the new Permanent Pricing Model until a separate contract is established between BCTC and ABS.

Critical Accounting Policies and Estimates

The preparation of BCTC's financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and costs, and related disclosures of commitments and contingencies. BCTC based its estimates and judgment on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimate and judgments.

NEW ACCOUNTING POLICIES

Rate Regulated Operations

The company is regulated by the BCUC which approved tariff rates and capital asset expenditures. As a regulated entity, the timing of the Company's recognition of certain assets, liabilities, revenue and expenses may differ from those otherwise expected by using general accounting principles for entities not subject to rate regulation. In May 2005, the Canadian Institute of Chartered Accountants (CICA) issued Accounting Guideline 19 *Disclosures by Entities Subject to Rate Regulation* (AcG-19). This guideline is effective for fiscal year's ending after December 31, 2005 and clarifies additional financial information that needs to be disclosed by rate regulated entities. The new disclosure requirement guidelines have been adopted by the Company for the year ended March 31, 2006.

Asset Retirement Obligations

Effective April 1, 2004 the Company adopted the CICA Handbook Section 3110 *Asset Retirement Obligations*. The recommendations require that a provision be established for future removal and site restoration costs arising on the retirement of capital assets when there is a statutory, contractual or legal obligation to incur these costs. When the liability is initially recorded, the costs are capitalized to the carrying cost of the asset. Over time, the liability is accreted to its present value each period and the capitalized cost is amortized on a straight-line basis over the estimated useful life of the asset.

Variable Interest Entities

In 2005 the Company adopted CICA Accounting Guideline 15 *Consolidation of Variable Interest Entities* (AcG-15). The guideline requires the consolidation of Variable Interest Entities (VIEs) by the primary beneficiary, the entity that will absorb or receive the majority of the VIE's expected losses, expected residual return or both. BCTC does not have any VIEs.

EMERGING ACCOUNTING PRONOUNCEMENTS

Accounting for Conditional Asset Retirement Obligations

In December 2005, the Emerging Issues Committee (EIC) of the CICA issued *Conditional Asset Retirement Obligations* (EIC-159). The pronouncement applies to accounting periods ending after March 31, 2006 and is applicable to the company's financial statements for year ended March 31, 2007. EIC-159 requires entities to recognize a liability for the fair value of an asset retirement obligation if that liability can be reasonably estimated. We are reviewing the new EIC pronouncement and do not expect that it will have a material impact on the Company.

Financial instruments

The CICA issued new accounting standards in January 2005 for Handbook Section 3855 *Financial Instruments Recognition and Measurement* and Section 1530 *Comprehensive Income*. These standards become effective for the company in fiscal year commencing April 1, 2007. Section 3855 prescribes when a financial asset or liability should be recognized on the balance sheet and whether fair value or cost-based measures should be used to value the assets or liabilities. Section 1530 introduces new rules on the reporting of comprehensive income. Comprehensive income is defined as the change in shareholders' equity in a period, excluding those changes that occur through investments from owners or distributions to owners. We are assessing the impact of these new accounting standards, but do not believe that their application will have a material impact on the Company's financial reporting.

Accounting for Rate Regulated Operations

The Accounting Standards Board (AcSB) had a project to review generally accepted accounting principles applicable to enterprises with rate regulated operations. On May 3, 2006, the AcSB made a decision to discontinue this project and further decided, subject to exposure of its proposal, that explicit guidance for rate-regulated operations be removed from the CICA Handbook and that the use of US Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* (FAS 71) is acceptable. An exposure draft for public comments will be issued. Two of the Company's accounting practices are governed by rate regulation. The two areas are capital assets and deferral accounts. At this time, the Company is unable to assess the impact, if any, on the Company's financial reporting.

Risk Management

BCTC is exposed to a variety of business and operating risks. Since F2005, BCTC has used an Enterprise Risk Management (ERM) framework to identify, assess, mitigate and monitor risks. BCTC's risk management practices are designed to provide reasonable assurance that its corporate and business objectives will be met. BCTC's enterprise risk management efforts are overseen by a Risk Management Committee composed of five members of the Executive Leadership Team and by the Audit Committee of the Board of Directors.

BCTC employs various risk management strategies to mitigate its risk exposure. For example, for certain types of risks, BCTC uses insurance as an effective mechanism for risk transfer. BCTC has in place a comprehensive insurance program with limits that are within the acceptable range of industry practices.

BCTC has developed a robust set of preventative maintenance standards to manage its maintenance work. The maintenance standards ensure that the scope, schedule, frequency of maintenance work is appropriately defined to minimize any risk exposure. Also, the maintenance standards ensure that system reliability is not compromised at an asset level.

Risk of interruption to mission critical business processes are managed, in part, through an enterprise Business Continuity Management Program. The program encompasses: emergency response planning, information system disaster recovery planning and other contingency planning initiatives including: grid outage, facility disruptions, health emergencies, et al. The program ensures that our personnel, assets, information systems, and operations are resilient to potential business disruptive events. Regular program reporting is provided to the Risk Management Committee and the Audit Committee of the Board of Directors.

Following are some of the general types of risks that BCTC faces:

Labour Risk

Half of BCTC's employees are represented by either the International Brotherhood of Electrical Workers (IBEW) or the Canadian Office and Professional Employees' Union (COPE). In the event of a labour dispute BCTC could face some degree of operational risk related to providing service to customers however essential services are protected by legislation. COPE Collective Agreement (50 employees) expires in March 2010. The IBEW Collective Agreement (100 employees) expires in March 2007.

BCTC relies on a relatively small, highly skilled workforce within an increasingly competitive labour market. The average age of BCTC's employees is 46 years. Voluntary attrition, inclusive of retirement, was 6.5% in F2005/06 and is expected to escalate, principally due to increased retirements, to 8 to 9% commencing in F2006/07. In order to manage this risk BCTC has increased the emphasis on succession and workforce planning, recruitment strategies and active management of other key attraction and retention factors. In addition staffing levels within the organization have increased due to workload considerations, including increased knowledge transfer requirements and training considerations.

Regulatory Risk

The Master Agreement signed between BC Hydro and BCTC requires BC Hydro to fund those capital projects approved by the BCUC. The cost of any capital project constructed at the request of BCTC and funded by BC Hydro for which approval of the BCUC is denied will not be recoverable through BCTC's rates and must be repaid to BC Hydro. BCTC manages this risk through prudent planning, seeking approvals as early as they can be obtained and by minimizing any capital activity in advance of the necessary approvals.

BCTC has received approval from the BCUC for certain deferral accounts in which to record the differences between forecast and actual revenues or costs. BCTC is subject to the same deferral account clearance risks as other regulated companies. BCTC manages this risk by ensuring deferred costs and revenues are prudent and by demonstrating BCTC's prudent action to the BCUC.

Project and Program Risk

BCTC mitigates program execution risks through the application of policies, processes and standards. Each capital or maintenance project is evaluated for regulatory, cost, schedule, scope, performance, utilization, functionality, environmental and safety risks. The risk management plan for each major project must be approved by the Risk Management Committee before the project can proceed.

Risk Management (continued)

Operational Risk

BCTC operates, plans, and manages the assets of the British Columbia transmission system and exercises exclusive authority for electric transmission reliability in BC. In the execution of this mandate, BCTC manages risks that could potentially impact the reliability, capacity, sustainment, safety or environmental performance of the transmission system. Monitoring of asset health and performance allows risk reduction programs to be initiated to mitigate risk events. BCTC actively participates in the WECC and operates and plans the system in compliance with WECC and NERC guidelines. BCTC also actively co-ordinates regional transmission planning with the neighbouring utilities. A comprehensive system of operating policy and local and system operating orders safeguard against worker and public, endangerment, equipment damage, loss of reliability, and loss of public support.

Environmental, Health and Safety Risk

These risks are managed by use of IOS (International Organization of Standards) consistent environmental and safety management systems. All lines of business are annually reviewed for policies, standards, and compliance with government regulations and industry standards. Where risk mitigation is required, appropriate management and operational controls are implemented.

In day to day practice, BCTC uses the management systems it has developed to identify, assess, and control environmental, health, safety and security risk with regular reporting to senior management and the Board of Directors. The Human Resources Committee of the Board of Directors has oversight responsibility for environmental, health and safety. Recent changes in Fiscal 2006 to the Company's organizational structure with respect to environment, safety and security have provided an overall governance framework across all lines of business to ensure a consistent management of risk.

Security Risk

Security risks are managed through an enterprise Security Management Program that encompasses physical security and cyber security. The security program ensures that our personnel, assets, information systems, and operations are resilient to security threats and potential business disruptive events. Regular security reporting is provided to Risk Management Committee and the Human Resources Committee of the Board of Directors.

Credit Risk

Credit risk is the risk of loss in the event a counterparty fails to fulfill its payment obligations. A counterparty may be a customer, under the Open Access Transmission Services Tariffs or other commercial agreements, debtor or guarantor.

BCTC has a low risk tolerance for credit risk and has established stringent credit policies and procedures for the day to day management of credit risk exposure. Transmission services are provided only to those customers whose debt, as determined by debt rating agencies, meets BCTC creditworthiness criteria or upon receipt of acceptable security. The management of credit risk is centralized under the Chief Financial Officer from a strategic and operational perspective. Credit risk is measured on an ongoing basis and a monthly credit review and exposure report is provided to management for review. In Fiscal 2006, BCTC did not experience any credit loss from customer accounts.

Market Risk

Market risk is the risk of loss resulting from changes in interest rates, foreign exchange rates and commodity prices.

BCTC is exposed to interest rate risk which could negatively affect its finance charges and the cost of its pension and other employee benefit plans. As at March 31, 2006, BCTC has a \$30 million debenture, at a coupon rate of 4.3% and maturing in December 2008. Therefore there is a low interest rate risk associated with debt cost. The interest rate risk on the cost of BCTC pension and other employee benefit plans is more significant due to sensitivity of discount rate used in valuing of pension plan liabilities. The discount rate is based on yields at the financial statement date of high quality corporate bonds matching the timing and amount of the expected benefit payments under the plans. Discount rate used has declined from 6% at March 31, 2005 to 5.40% at March 31, 2006 and this will contribute to higher actuarial liabilities and current service costs for future periods. BCTC is undertaking an Asset/Liability study to address interest risk associated with its pension plan.

BCTC foreign currency risk is currently insignificant as most of its exposure pertains to its trade receivables and payables. BCTC does not have any commodity risk.

F2007 Outlook

The outlook for F2007 will see BCTC continuing to make significant progress toward fulfilling its mandate through the well-defined strategies and objectives outlined in this annual report and the Service Plan. The Company will have its first full year of operation under the new OATT tariff which is designed to facilitate better access to and utilization of the transmission system by wholesale transmission customers and generators. In May 2006 BCTC filed its F2007 Transmission Revenue Requirement application to the BCUC seeking approval for transmission rates. The Commission decision on F2007 rates will impact on the level of revenue that the Company is allowed to earn to recover its costs, including an allowed return based on 13.13% on deemed equity. The financial outlook for F2007 based on revenue requirement application submitted to the BCUC in May 2006 shows that BCTC will earn \$189.7 million in revenues based on yielding \$2.9 million in allowed net income. The decline in revenue is largely due to lower transmission cost, including reduced allowed return on deemed equity. BCTC is also seeking Commission approval to dispose certain deferral account balances at March 31, 2006. Of the \$23.4 million deferred accounts balance, a lump sum refund of \$22.1 million will be paid to transmission customers upon BCUC approval. The remaining \$1.3 million relating to the Emergency Maintenance Deferral account will be retained by BCTC to cover future emergency repair costs.

Planning and executing the transmission capital plan prudently and effectively is a priority for BCTC. There are a number of major capital projects underway and capital expenditures for F2007, including transmission projects on behalf of BC Hydro, are forecast at \$267.3 million, an increase of \$123 million from F2006 level. The public process relating to BCTC's application for Vancouver Island Transmission Reinforcement project is forecast to conclude in F2007 with the Commission decision expected sometime in the summer of 2006. The System Control Center Modernization Project will be well underway with the design of the new energy management system and construction of the new system control center facility. In addition, BCTC plans to file a Capital Plan in the fall of 2006 seeking approval of new transmission capital projects commencing in F2008 and F2009.

Number of Employees

At March 31, 2006, BCTC had 321 regular employees [2005 - 311] and 19 temporary employees [2005 - 14].

Management Report

The financial statements of British Columbia Transmission Corporation (BCTC) are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. In management's opinion, the financial statements have been properly prepared within the framework of the accounting policies summarized in the financial statements and incorporate, within reasonable limits of materiality, all information available at May 8, 2006. The financial statements have also been reviewed by the Audit Committee and approved by the Board of Directors.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee.

The financial statements as at March 31, 2006, and for the year then ended have been examined by an independent external auditor. The external auditor's responsibility is to express his opinion on whether the financial statements, in all material respects, fairly present BCTC's financial position, results of operations, retained earnings and cash flows in accordance with Canadian generally accepted accounting principles. The Auditor's Report, which follows, outlines the scope of his examination and his opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit Committee, composed of directors who are independent from management, meets regularly with the external auditor, the internal auditor and management to satisfy itself that each group has properly discharged its responsibility to review the financial statements before recommending approval by the Board of Directors. The internal and external auditors have full and open access to the Audit Committee, with and without the presence of management.



Jane Peverett
President and CEO

Vancouver, Canada
May 8, 2006



Brian Gabel
Vice President, Corporate Services and CFO

Report of the Office of the Auditor General of British Columbia

To the Members of the Board of British Columbia Transmission Corporation, and

To the Minister of Energy, Mines and Petroleum Resources, Province of British Columbia:

We have audited the balance sheet of *British Columbia Transmission Corporation* as at March 31, 2006, and the statements of operations, retained earnings and cash flows for the year ended March 31, 2006. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of *British Columbia Transmission Corporation* as at March 31, 2006, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Errol S. Price, CA
Deputy Auditor General

Victoria, British Columbia
May 8, 2006

Statement of Operations

For the years ended March 31	2006	2005
Revenue		
Tariff (Notes 3 and 8)	\$ 79,194	\$ —
Asset management and maintenance (Notes 3 and 8)	90,200	—
Service fees and other (Notes 8 and 13)	34,738	93,404
Investment income	1,214	1,384
	205,346	94,788
Expenses		
Cost of market (Note 14)	4,539	758
Operations, maintenance and administration (Notes 8 and 13)	157,280	71,579
Taxes and grants	265	251
Depreciation and amortization	19,707	17,263
Finance charges (Note 15)	1,994	1,555
	183,785	91,406
Income before Deferral Account Transfers	21,561	3,382
Deferral Accounts (Note 3)	(8,100)	—
Net Income	\$ 13,461	\$ 3,382

Statement of Retained Earnings

For the years ended March 31	2006	2005
Retained Earnings, beginning of year	\$ 4,309	\$ 927
Net income	13,461	3,382
Retained Earnings, end of year	\$ 17,770	\$ 4,309

See accompanying notes to the financial statements.

Balance Sheet

as at March 31, 2006

2006

2005

ASSETS

Current Assets

Cash and cash equivalents	\$ 36,038	\$ 9,461
Short term investments (Note 4)	7,242	10,096
Accounts receivable	3,899	3,583
Prepaid expenses (Note 6)	1,360	2,040
Due from BC Hydro (Note 8)	21,590	1,345

Other Receivables (Note 5)

344 1,361

Prepaid Expense - Long Term (Note 6)

3,234 3,949

Capital Assets (Note 7)

63,628 61,849

\$ 137,335 \$ 93,684

LIABILITIES AND SHAREHOLDER'S EQUITY

Current Liabilities

Bank indebtedness	\$ —	\$ 2,846
Current portion of obligations under capital lease (Note 19)	99	93
Accounts payable and accrued liabilities	14,663	8,325
Accrued interest	376	375
Deferred revenue	1,439	610
Deferred leasehold inducements	1,752	1,685
Deferral accounts (Note 3)	23,393	—

41,722 13,934

Accrued Employee Benefits (Note 9)

19,873 17,362

Asset Retirement Obligation (Note 10)

883 842

Long Term Debt (Note 11)

30,140 30,191

Obligations Under Capital Lease (Note 19)

6,947 7,046

99,565 69,375

Shareholder's Equity

Share capital (Note 12)	20,000	20,000
Retained earnings	17,770	4,309

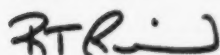
37,770 24,309

\$ 137,335 \$ 93,684

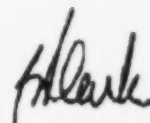
Commitments and contingencies (Note 19)

See accompanying notes to the financial statements.

Approved on behalf of the Board:



R.T.F. (Bob) Reid
Chair of the Board



Bev Park
Chair, Audit Committee

Statement of Cash Flows

For the years ended March 31

2006

2005

Operating Activities

Net income	\$ 13,461	\$ 3,382
Adjustment for non-cash items:		
Write-off of long-term receivable	985	—
Depreciation and amortization	19,707	17,263
Other amortization expense included in operations, maintenance and administration	806	1,679
Accrued employee benefits changes	1,153	1,548
	36,112	23,872

Changes in non-cash working capital:

Accounts receivable and prepaid expenses	(1,360)	(1,902)
Due from BC Hydro	(17,222)	(14,951)
Accounts payable	4,444	(2,013)
Accrued interest and deferred revenue	830	741
Deferral accounts	23,393	—
	10,085	(18,125)

Cash provided by operating activities

46,197 **5,747**

Investing Activities

Capital asset expenditures	(20,773)	(13,709)
Short term investments	2,854	(10,096)
Addition to long term prepaid expense	(443)	(6,668)
Other assets, net of repayment	32	(905)
Cash used for investing activities	(18,330)	(31,378)

Financing Activities

Proceeds from long term debt	—	30,234
Accrued employee benefits payment from BC Hydro	1,358	6,531
Asset retirement obligation payment from BC Hydro	—	778
Reduction in borrowings	—	(9,943)
Leasehold inducement	291	(99)
Principal payments of obligations under capital lease	(93)	(86)
Cash provided by financing activities	1,556	27,415

Increase in Cash

29,423 **1,784**

Cash, beginning of year

6,615 **4,831**

Cash, end of year

\$ 36,038 **\$ 6,615**

Supplemental Disclosure of Cash Flow Information

Interest paid	\$ 1,489	\$ 1,313
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See accompanying notes to the financial statements.

Notes to the Financial Statements

For the Years Ended March 31, 2006 and 2005

Note 1: Nature of Operations

The British Columbia Transmission Corporation ("the Company" or "BCTC") is a provincial Crown corporation incorporated on May 2, 2003 under the B.C. *Business Corporations Act* (formerly, the *Company Act*). The Company is authorized by the *Transmission Corporation Act* (May 29, 2003) and the Key Agreements designated by the Lieutenant Governor in Council (November 20, 2003) pursuant to that Act to plan, operate and manage the electric transmission system of the British Columbia Hydro and Power Authority (BC Hydro). As part of the Province's Energy Plan, BCTC is established as a separate government-owned corporation that has full responsibility for planning, operating and maintaining the transmission assets to ensure independent, open and non-discriminatory access to the transmission system. BCTC reports to the Minister of Energy, Mines and Petroleum Resources and is regulated by the British Columbia Utilities Commission.

As of April 1, 2005 BCTC became a rate-regulated entity regulated by the British Columbia Utilities Commission (BCUC) (Note 3).

Note 2: Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in Canada (GAAP) and are expressed in Canadian dollars.

Use of Estimates

BCTC's management has made a number of estimates and assumptions related to the reporting of assets and liabilities to prepare these financial statements in conformity with Canadian generally accepted accounting principles. Actual results could differ from these estimates.

Regulation

Effective April 1, 2005, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 19 AcG-19 "Disclosures by Entities Subject to Rate Regulation" which provides disclosure requirements for rate regulated entities. Adoption of this guideline had no impact on comparative information.

Cash and Cash Equivalents

Cash and cash equivalents include cash, bank indebtedness and units in money market funds with original maturity dates of less than 90 days from the original date of acquisition.

Short Term Investments

Short term investments consist of units in bond pooled funds which invest in government securities or securities guaranteed by government. Units in the pooled funds are recorded at the lower of cost and their fair values.

Capital Assets

Capital assets are recorded at cost. During the construction of new assets, direct costs plus a portion of overhead costs and related financing costs are capitalized. Construction is transferred to capital assets in service when the asset is substantially complete. Depreciation commences in the month after an asset is put into service. Depreciation is provided principally on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	45 years
Computer hardware and software	3 - 10 years
Communication equipment	7 - 15 years
Furniture and equipment	5 - 40 years
Leasehold improvements	10 years

Asset Retirement Obligations

A provision for the future removal and site restoration costs arising on the retirement of capital assets is made where there is a statutory, contractual or legal obligation upon retirement. When the liability is initially recorded, the costs are capitalized to the carrying cost of the asset. Over time, the liability is accreted to its present value and the capitalized cost is amortized on a straight-line basis over the estimated useful life of the asset.

Notes to the Financial Statements (continued)

For the Years Ended March 31, 2006 and 2005

Impairment of Long-lived Assets

Capital assets and long-term prepaid expenses (long-lived assets) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment loss is calculated by deducting the estimated fair value of the asset from its carrying value.

Leases

Leases are classified as capital or operating depending upon the terms and conditions of the contracts.

Asset values recorded under capital leases are amortized on a straight-line basis over their estimated useful lives. Obligations recorded under capital leases are reduced by lease payments net of imputed interest.

Deferred Revenue

Deferred revenue consists principally of amounts received under Preliminary Study Agreements to investigate the requirements for interconnecting independent power generation facilities to the transmission system. The amounts received are deferred and included in income when earned.

Leasehold Inducements

Leasehold inducements are monies advanced on an operating lease for premises by the property owner. Inducements are amortized over the period of the lease and reduce lease expenses.

Revenue Recognition

BCTC earns revenues under the Open Access Transmission Tariff (OATT). OATT revenue is recognized on an accrual basis as services are provided. Tariffs are applicable to network integration transmission services, point to point and ancillary services.

Revenues earned through the provision of non-tariff services to BC Hydro for asset management and maintenance, generation related transmission asset management, and generation dispatch are recognized on a straight-line basis over the term of the contract.

Revenues earned through the provision of non-tariff services to BC Hydro for distribution operations and substation distribution asset management are recognized on an accrual basis as services are provided.

Other non-tariff services include engineering services provided to third parties and are recognized on an accrual basis as services are provided.

Foreign Currency Translation

Foreign currency denominated revenues and expenses are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Foreign exchange gains and losses are included in the determination of earnings.

Pension and Other Retirement Benefit Plans

The actuarial determination of the accrued benefit obligation for pensions and other retirement benefits uses the projected benefit method prorated on service, which incorporates management's best estimate of future salary levels, health care cost escalation, retirement ages of employees and other actuarial factors. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains (losses) arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period, from differences in actuarial experience versus the assumed experience or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees is 11 years.

Notes to the Financial Statements (continued)

For the Years Ended March 31, 2006 and 2005

Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

Note 3: Regulation

Effective April 1, 2005, BCTC is regulated by the BCUC which approves the Company's revenue requirement, rates, tariffs and capital expenditures following open, public processes.

BCTC operates under cost of service regulation as prescribed by the BCUC. The Company applies to the BCUC for the approval of rates recovering an annual revenue requirement. The BCUC approved BCTC's OATT on June 24, 2005. For the year ended March 31, 2006, BCTC earned transmission revenues under tariffs that were projected to recover a 13.51% return on deemed equity. Special Direction No. 9 sets out BCTC's deemed equity structure for the purpose of setting rates.

The Master Agreement sets out BCTC's authority and responsibility for designing, developing and applying to the BCUC for the approval of Transmission Revenue Requirement, which includes both BCTC and BC Hydro transmission costs to be recovered through the OATT. There are three components to the Transmission Revenue Requirement:

1. BC Hydro Owner's Revenue Requirement
2. BC Hydro's Asset Management and Maintenance Revenue Requirement
3. BCTC Revenue Requirement

Under the OATT arrangement between BC Hydro and BCTC, the recovery of Asset Management and Maintenance Revenue Requirement is assigned by BC Hydro to BCTC as payment for the asset management and maintenance services provided by BCTC to BC Hydro under the Asset Management and Maintenance Agreement. Once the BCUC approved the OATT tariff, BCTC became responsible for the administration of the tariff including the offering, scheduling, billing and collection of transmission services and revenues. Under this agreement, BCTC bears the financial responsibility for funding any shortfalls or receiving surpluses in the total transmission revenue requirement for each fiscal year.

The BCUC approved a Revenue Deferral Account to recover shortfalls from or refund surpluses to customers through future rates. Consequently, BCTC's revenue deferral account includes a portion pertaining to BC Hydro's revenue requirement for transmission services. Under the Master Agreement, BCTC bills customers for the total amount to be recovered for BC Hydro and BCTC, collects payments from OATT customers and transfers the proportionate share of BC Hydro's Owner's Revenue Requirement to total Transmission Revenue Requirement to BC Hydro's bank account on a monthly basis. The balance represents the proportional share of the total of Asset Management and Maintenance and BCTC Revenue Requirement components to total Transmission Revenue Requirement, which remains with BCTC. Any excess or shortfall between actual payment to BC Hydro and its share of the approved transmission revenue requirement will be settled 60 days following the end of each fiscal year. Tariffs are applicable to network integration transmission services, point to point and ancillary services.

Commencing April 1, 2005 BCTC maintains BCUC approved deferral accounts for OATT related revenue, emergency maintenance costs, cost of market, regulatory expenditures, Grid West expenses and the System Control Modernization Study. The deferral accounts accumulate the difference between the BCUC approved amounts and the actual revenues and costs for recovery from/refund to customers through future rates as more fully described below.

Revenue Deferral Account

As outlined in the Master Agreement between BCTC and BC Hydro and designated by the Lieutenant Governor in Council on November 20, 2003, BCTC administers OATT for transmission services to recover its own costs as well as costs incurred by BC Hydro. BCTC therefore bears the financial responsibility for funding any short falls or receiving surpluses in the total OATT Revenue Requirement for each fiscal year. The BCUC has approved the establishment of the Revenue Deferral Account and other regulatory mechanisms to recover revenue shortfalls or refund revenue surpluses from customers. Consequently, BCTC's deferral account includes a portion pertaining to BC Hydro's Revenue Requirement for transmission services.

Notes to the Financial Statements (continued)

For the Years Ended March 31, 2006 and 2005

BCTC's Revenue Deferral Account captures annual variances between the forecast OATT revenues approved by the BCUC and the actual revenues for both BCTC and BC Hydro. BCTC reports the full amount of its own OATT revenue in Tariff revenue on the statement of operations. Any variance from forecast OATT revenues are deducted from earnings and recorded in the balance sheet deferral account. BC Hydro records its portion of the approved OATT revenues in its financial statements and these revenues are not recorded in the statements of BCTC. However any variance between BC Hydro's actual OATT revenues and BC Hydro's approved OATT revenue is recorded in BCTC's deferral account and an equivalent amount accrued as a receivable or payable to BC Hydro. The Revenue Deferral Account also includes variances relating to BCTC's ancillary service.

Emergency Maintenance Deferral Account

Captures the variances between forecast and actual non-capital emergency maintenance expenditures incurred as a result of unanticipated major equipment failures, extreme weather, wildfires or similar events.

Cost of Market Deferral Account

Captures variances between forecast and actual Cost of Market expenditures. Cost of Market Expenditures include:

- Congestion management expenses relating to the purchase of operating reserves, transmission location credits, unscheduled flow mitigation and operating agreements between control areas; and
- Ancillary services expenses BCTC incurs for all generation-based ancillary services that BCTC, in turn, sells to customers on a cost flow through basis.

Regulatory Expense Deferral Account

Captures the variances between forecast and actual regulatory costs. These costs include BCTC's counsel, experts and staff, hearing costs associated with the applications and interveners costs as approved by the BCUC.

Grid West Expense Deferral Account

Captures the variances between forecast and actual expenditures. These costs include BCTC's counsel, consultants, travel and other out-of-pocket expenses.

System Control Modernization Study Deferral Account

Captures the project definition cost of the System Control Modernization Project.

Deferral Account Activity

BCTC has recorded the following amounts in respect to all deferral accounts, except for the System Control Modernization Study Deferral account, for the year ended March 31, 2006. The \$2 million actual cost recorded in the System Control Modernization Study Deferral account is capitalized as part of the project cost and included in the capital assets amount as unfinished construction. These costs were incurred prior to April 1, 2005.

The balances included in the regulatory deferral accounts are as follows:

	Pertains to BCTC's Revenue Requirement	Pertains to BC Hydro's Revenue Requirement	Total Balance Sheet Impact Regulatory Liabilities	Decrease to BCTC's Net Income
(\$ in thousands)				
Revenue	\$ 3,528	\$ 14,858	\$ 18,386	\$ 3,120
Emergency Maintenance	—	—	1,320	1,314
Cost of Market	—	—	1,263	1,261
Regulatory Expense	—	—	1,730	1,716
Grid West	—	—	694	689
Total	\$ 3,528	\$ 14,858	\$ 23,393	\$ 8,100

Notes to the Financial Statements (continued)

For the Years Ended March 31, 2006 and 2005

The Net Income impact described does not include the interest portion accruing on the Deferral Accounts whereas the Balance Sheet amounts include accrued interest. The Revenue Deferral Account amount of \$3,528,000 includes accrued interest of \$408,000. The interest recorded in each of the Deferral accounts was based on BCTC's weighted average cost of debt for F2006, 4.22%.

Note 4: Short Term Investments

\$ in thousands	2006	2005
Investments		
Short term bond unitized fund	\$ 3,553	\$ 3,188
Index government bond units	3,689	6,908
	\$ 7,242	\$ 10,096

Short term investments are recorded at their fair values.

Note 5: Other Receivables

\$ in thousands	2006	2005
Mortgages receivable	\$ 330	\$ 847
Other long term receivable	—	495
Deferred debt costs	14	19
	\$ 344	\$ 1,361

BCTC has an Employee Housing Assistance Program, which grants five-year housing loans to employees. At March 31, 2006, there were two employee mortgages outstanding. These loans were issued at market rates and are secured by a second mortgage registered against their property. At the expiry of the mortgage term, the employees have the option to renew the mortgage for an additional five-year term.

Other long term receivable consisted of funding made to Grid West (formerly RTO West) pursuant to a funding agreement. Pursuant to the Master Agreement with BC Hydro, BCTC assumed all rights of BC Hydro as a "filing utility" in the Grid West development process and assumed the rights and obligations, including the funding obligation of BC Hydro under the RTO West Funding Agreement effective December 1, 2003. In January 2006, BCTC decided to suspend funding for the next phase of Grid West's development. On April 11, 2006, the Grid West Board of Directors voted to dissolve the corporation and wind-up its affairs. Grid West currently has few tangible assets that would serve as collateral for the outstanding loans. BCTC has written off the long term receivable.

Notes to the Financial Statements (continued)

For the Years Ended March 31, 2006 and 2005

Note 6: Prepaid Expenses

The long term prepaid expense balance as at March 31, 2006 relates to an initial asset utilization fee paid to BC Services Asset Corporation (SAC), a subsidiary of BC Hydro, pursuant to an agreement of key principles and terms with BC Hydro, upon which the current Master Services Agreement will be split between Accenture Business Services and BC Hydro and BCTC respectively. This fee is amortized over the utilization period of the related SAC assets, which is estimated to be 6.7 years commencing April 1, 2004.

\$ in thousands	2006	2005
Asset utilization fee payment	\$ 4,797	\$ 6,668
Other prepaid expenses	2,213	1,192
Less: Amortization	(2,356)	(995)
Less: Expensed due to non future usage	(60)	(876)
Total prepaid expenses at end of year	4,594	5,989
Less: Short-term prepaid	(1,360)	(2,040)
Long-term prepaid expense	\$ 3,234	\$ 3,949

Note 7: Capital Assets

2006 \$ in thousands	Cost	Accumulated Depreciation	Total
Bentall Centre and Edmonds location:			
Buildings under capital lease	\$ 7,297	\$ (614)	\$ 6,683
Computer hardware and software	19,807	(6,254)	13,553
Communication equipment	420	(67)	353
Furniture and equipment	2,595	(391)	2,204
Leasehold improvements	2,660	(381)	2,279
	32,779	(7,707)	25,072
Other locations:			
Buildings	6,304	(2,294)	4,010
Computer hardware and software	19,692	(17,272)	2,420
Communication equipment	25,521	(12,848)	12,673
Furniture and equipment	3,668	(1,428)	2,240
Asset retirement obligation cost	142	(133)	9
Contribution in Aid of Construction	(144)	72	(72)
	55,183	(33,903)	21,280
	87,962	(41,610)	46,352
Unfinished construction	17,276	—	17,276
Total	\$ 105,238	\$ (41,610)	\$ 63,628

Notes to the Financial Statements (continued)

For the Years Ended March 31, 2006 and 2005

2005 \$ in thousands

	Cost	Accumulated Depreciation	Total
Bentall Centre and Edmonds location:			
Buildings under capital lease	\$ 7,297	\$ (351)	\$ 6,946
Computer hardware and software	8,619	(1,712)	6,907
Communication equipment	410	(29)	381
Furniture and equipment	2,173	(243)	1,930
Leasehold improvements	1,865	(150)	1,715
	20,364	(2,485)	17,879
Other locations:			
Buildings	6,304	(742)	5,562
Computer hardware and software	18,821	(10,238)	8,583
Communication equipment	25,340	(7,994)	17,346
Furniture and equipment	3,668	(556)	3,112
Asset retirement obligation cost	142	(129)	13
Contribution in Aid of Construction	(144)	44	(100)
	54,131	(19,615)	34,516
	74,495	(22,100)	52,395
Unfinished construction	9,454	—	9,454
Total	\$ 83,949	\$ (22,100)	\$ 61,849

During Fiscal 2006, the Company formally scheduled the replacement of the existing control centre assets for October 2008 as a result of the System Control Modernization Project. These assets are depreciated over the earlier of the remaining life or the period to October 2008 and are shown under "Other locations".

Note 8: Transactions with Related Parties

(a) BC Hydro pays the Company for the cost of system operation and asset management services and other services as follows:

	2006	2005
Revenues from BC Hydro		
Tariff revenue	\$ 71,705	\$ —
Asset management and maintenance	90,200	—
Service fees and other	32,705	93,145
Total revenues from BC Hydro	\$ 194,610	\$ 93,145

(b) The amounts due from (to) BC Hydro as at March 31 are as follows:

	2006	2005
Tariff billing distributed to BC Hydro in excess of their Revenue Requirement	\$ 15,304	\$ —
Accrued tariff billing receivable (payable)	13,148	(1,842)
Service fees and cost recoveries	6,654	4,729
Services performed by BC Hydro and subsidiaries	(13,516)	(518)
BC Hydro loading charges refund	—	1,964
Costs paid by BC Hydro on behalf of BCTC	—	(2,988)
Total due from BC Hydro	\$ 21,590	\$ 1,345

Notes to the Financial Statements (continued)

For the Years Ended March 31, 2006 and 2005

- (c) Included in the operations, maintenance and administration expense is \$75,956,000 (2005 - \$ 3,867,000) for services purchased from BC Hydro and subsidiaries and \$5,763,000 (2005 - \$4,166,000) of labour overhead cost recoveries from BC Hydro. Included in capital expenditures is \$395,000 (2005 - \$1,793,000) for services purchased from BC Hydro.
- (d) Included in due from BC Hydro and deferred revenue is \$986,000 (2005 - \$ 66,000) of engineering and other services from BC Hydro in relation to systems studies.
- (e) In December 2003, the Company entered into lease contracts with BC Hydro for control centre buildings and land (see Note 19). Two building leases valued at BC Hydro's net book value of \$7,297,000 are accounted for as capital leases. These amounts have been included in the financial statements as capital assets and obligations under capital lease. At March 31, 2006, the balance of the obligations under capital lease was \$99,000 (2005 - \$93,000) current and \$6,947,000 (2005 - \$7,046,000) non-current. Included in finance charges is \$521,000 (2005 - \$528,000) of interest expense relating to the capital leases. Other land and building leases with BC Hydro are accounted for as operating leases. Included in the operations, maintenance and administration expense is \$200,000 (2005 - \$200,000) for these operating leases.

Note 9: Accrued Employee Benefits

	2006	2005
Registered pension plan (see Note 17)	\$ (800)	\$ (219)
Supplemental pension plan (see Note 17)	2,320	482
Total Accrued benefit liability	1,520	263
Post-retirement benefit costs (see Note 17)	8,490	7,744
Time bank liabilities	9,863	9,355
	\$ 19,873	\$ 17,362

The defined benefit costs for the year ended March 31, 2006 were \$3,217,000 (2005 - \$2,857,000).

Note 10: Asset Retirement Obligation

On April 1, 2004, the Company recorded an asset retirement obligation (ARO) for the system control centre facility as it is legally required to remove the facility at the end of its useful life (estimated to be October 2008) and to restore the site to its original condition in accordance with the lease agreement. The system control centre facility was placed in service by BC Hydro in 1974. This asset was transferred to the Company on December 1, 2003 under the Asset Lease, License and Transfer Agreement. The ARO liability for this facility is estimated to be \$1,000,000 at the end of October 2008, with timing of expenditures expected to commence in November 2009. The present value of this ARO liability, calculated to be \$795,000, was recorded in April 2004 using a credit adjusted risk free rate of 5.9%. BC Hydro paid the Company \$778,000 for its share of the ARO liability.

For the year ended March 31, 2006, amortization of the ARO cost was \$4,000. The liability was as follows:

	2006	2005
ARO Liability - beginning of period	\$ 842	\$ 795
Accretion expense	41	47
ARO Liability - end of period	\$ 883	\$ 842

Note 11: Long Term Debt

In May 2004, the Company issued a debenture, series BCTR-CD-6(1) to the Province of British Columbia with a face value amount of \$30,000,000, a coupon rate of 4.3% and an effective interest rate of 4.1%. The balance at March 31, 2006 consists of the face value of the debenture, \$30,000,000 and \$140,000 of unamortized premium. The debenture is due on December 18, 2008 with interest payable semi-annually in June and December of each year.

Notes to the Financial Statements (continued)

For the Years Ended March 31, 2006 and 2005

The Company currently has no short term borrowings. Under the terms of an agreement with the Province of British Columbia, the Company is authorized to borrow up to \$25,000,000 under the short-term commercial paper program. Interest is charged at the prevailing money market rates. In addition, the Company has available a \$5,000,000 demand revolving line of credit with a chartered bank.

Note 12: Share Capital

Authorized Share Capital

The Company is authorized to issue 10,000,000 common shares without par value.

Common Shares

	2006		2005	
	Shares	Amount	Shares	Amount
Issued at incorporation	1	\$ 1	1	\$ 1
Issued pursuant to Subscription Agreement for cash consideration	1	20,000,000	1	20,000,000
Issued and Outstanding	2	\$ 20,000,001	2	\$ 20,000,001

The Province of British Columbia owns both common shares.

Note 13: One Time Incentive Payment

On November 30, 2005 the Province of British Columbia announced a new negotiating framework which provided a one time incentive payment to BC public sector employees for settlement of their compensation agreement. Included in service fees and other revenue and operations, maintenance and administration is \$835,000 (2005 - \$0) received from the Province of British Columbia for the reimbursement and payment of the incentive bonus to all eligible employees.

Note 14: Cost of Market

Cost of market expenses include ancillary service and congestion management costs. Ancillary service costs include scheduling, system control and dispatch, reactive supply and voltage control, regulation and frequency response, energy imbalance, operating reserves and loss compensation. Ancillary service costs are needed with transmission service to maintain reliability within and among the control areas affected by the transmission service. Congestion management costs relate to the purchase of operating reserves, transmission locational credits, unscheduled flow mitigation, and operating agreements between control areas. Congestion management costs are incurred to maximize the transmission capacity available to be contracted by customers.

	2006	2005
Congestion Management	\$ 916	\$ 758
Ancillary Services	3,623	—
	\$ 4,539	\$ 758

Note 15: Finance Charges

	2006	2005
Interest on debenture	\$ 1,250	\$ 1,054
Interest on capital leases	521	528
Interest on deferral accounts	436	—
Interest on other	95	234
Less: Interest capitalized to construction	(308)	(261)
	\$ 1,994	\$ 1,555

Notes to the Financial Statements (continued)

For the Years Ended March 31, 2006 and 2005

Note 16: Financial Instruments and Concentration of Risk

Fair values

At March 31, 2006, the Company's financial instruments included cash and cash equivalents, short term investments, accounts receivable, other receivables, accounts payable and accrued liabilities, accrued interest, due from BC Hydro, accrued employee benefits, asset retirement obligation, long-term debt, and obligations under capital lease. The fair values of the Company's financial instruments approximate carrying amounts unless otherwise disclosed.

Credit Risk Management

BCTC is directly exposed to counterparty credit risk as a result of providing transmission and related services to its customers. BCTC's customers are utilities and their affiliates in the western United States and western Canada. Credit risk is managed by authorizing transactions with only credit-worthy counterparties as determined by BCTC Board-approved policies, and by monitoring the credit risk and credit standing of customers on a regular basis.

Foreign Currency Risk

BCTC's temporary investments are denominated in Canadian dollars and are not exposed to foreign exchange fluctuations.

Interest Rate Risk

For temporary investments, interest rate is minimized by investing in short-term fixed income pooled funds which are comprised of Government of Canada and provincial short-term paper. BCTC's investments are managed by bcIMC.

The long-term debt bears a fixed interest rate for the loan. Consequently, the long-term debt risk exposure is minimal.

Note 17: Employee Benefit Plans

The Company provides a defined benefit registered pension plan to all employees ("Pension Plan"). Pension benefits are based on years of membership service and highest five-year average pensionable earnings. Employees make basic and indexing contributions to the plan funds based on a percentage of current pensionable earnings. Annual cost-of-living increases are provided to pensioners to the extent that funds are available in the indexing fund. The Company contributes amounts as prescribed by an independent actuary towards the cost of providing basic benefits under the plan.

In addition, the Company provides a supplementary pension arrangement that provides additional pension benefits to employees to the extent that their benefits under the registered pension plan are constrained by the maximum pension limits under the *Income Tax Act*. At March 31, 2006 the Supplemental Plan includes the minimum pension guarantee provided by BCTC to five (5) former employees of BC Hydro with prior service under one of the BC public service pension plans, as well as certain enhanced benefits payable to BCTC employees at the Vice-President level and above.

The Company provides post-retirement benefits other than pensions including medical, extended health and life insurance coverage for retirees who have at least ten years of service and qualify to receive pension benefits.

The Company has measured its accrued benefit obligations and the fair value of plan assets for accounting purposes as at March 31, 2006. The most recent actuarial valuation of the Pension Plan for funding purposes was as of August 1, 2003, prepared by Mercer Human Resource Consulting. The next actuarial valuation of the Pension Plan for funding purposes will be prepared as at December 31, 2005.

The Pension Plan received an asset transfer from the BC Hydro Pension Plan on April 29, 2005 in relation to the 151 employees who elected to transfer their accrued pension as at August 1, 2003 from the BC Hydro Pension Plan to the Pension Plan. The amount of the transfer, including interest, was \$25,912,000. In addition, on this same date, a cash payment from BC Hydro in the amount of \$594,000 was also contributed into the Pension Plan. On January 16, 2006, the Pension Plan received \$514,000 in relation to the non-Order In Council (OIC) transfers from the BC Hydro Pension Plan. In total, the Pension Plan assets increased by \$27,020,000 as a result of amounts received from BC Hydro and the BC Hydro Pension Plan.

On April 29, 2005 and on January 16, 2006, the Company received cash payments to its general revenue account from BC Hydro in recognition of assuming benefits in respect of the Supplemental Plan of \$1,472,000 and \$26,000 respectively. Additionally, \$140,000 was transferred to the BC Hydro Pension Plan in relation to non-pension post-retirement benefits for employees who transferred from the Company to BC Hydro.

Notes to the Financial Statements (continued)

For the Years Ended March 31, 2006 and 2005

Elements of Defined Benefit Costs

	Pension Plans		Other Benefit Plans	
	2006	2005	2006	2005
Company current service cost				
Basic benefits	\$ 1,961	\$ 1,823	\$ 332	\$ 272
Indexing benefits	266	232	—	—
Interest cost	1,729	307	548	477
Actual return on plan assets	(3,179)	(135)	—	—
Special termination benefits	110	—	—	—
Actuarial loss (gain) on accrued benefit obligation	4,579	318	979	985
Costs arising in the period	5,466	2,545	1,859	1,734
Differences between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets	1,427	(119)	—	—
Actuarial gain	(4,575)	(318)	(960)	(985)
Net periodic pension cost recognized	\$ 2,318	\$ 2,108	\$ 899	\$ 749

Weighted-average assumptions for expense

	Pension Plans		Other Benefit Plans	
	2006	2005	2006	2005
Discount rate	6.0%	6.25%	6.0%	6.5%
Expected long-term rate of return on plan assets	7.0%	7.0%	—	—
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%

Weighted-average assumptions for year end disclosure

	Pension Plans		Other Benefit Plans	
	2006	2005	2006	2005
Discount rate	5.4%	6.0%	5.4%	6.0%
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%

Change in accrued benefit obligation

	Pension Plans		Other Benefit Plans	
	2006	2005	2006	2005
Accrued benefit obligation at beginning of period	\$ 6,410	\$ 2,437	\$ 8,816	\$ 7,086
Obligation assumed from (transferred to) BC Hydro	28,518	—	(140)	—
Company current service cost				
Basic benefits	1,961	1,823	332	272
Indexing benefits	266	232	—	—
Interest cost	1,729	307	548	477
Actual return on plan assets - indexing benefits	1,046	21	—	—
Employee contributions				
Basic benefits	1,249	1,099	4	—
Indexing benefits	265	232	—	—
Benefits paid	(332)	(59)	(17)	(4)
Special termination benefit	110	—	—	—
Actuarial loss	4,579	318	979	985
Accrued benefit obligation at end of period	\$ 45,801	\$ 6,410	\$ 10,522	\$ 8,816

Notes to the Financial Statements (continued)

For the Years Ended March 31, 2006 and 2005

Change in plan assets

	Pension Plans		Other Benefit Plans	
	2006	2005	2006	2005
Fair value of plan assets at beginning of period	\$ 5,577	\$ 2,028	\$ —	\$ —
Assets transferred from BC Hydro	27,020	—	—	—
Actual return on plan assets:				
Basic benefits	3,179	135	—	—
Indexing benefits	1,046	21	—	—
Company contributions:				
Basic benefits	2,293	1,889	13	4
Indexing benefits	266	232	—	—
Employee contributions:				
Basic benefits	1,249	1,099	4	—
Indexing benefits	265	232	—	—
Benefits paid	(332)	(59)	(17)	(4)
Fair value of plan assets at end of period	\$ 40,563	\$ 5,577	\$ —	\$ —

The pension obligations assumed from BC Hydro, in relation to those employees who elected to transfer their pension benefits to BCTC, were \$28,518,000. This amount is \$1,498,000 higher than the \$27,020,000 assets transferred to the pension fund as the assets transferred from BC Hydro in relation to the pension obligations under the supplemental pension plan were included in the Company's general operating fund. The supplemental pension plan is not a registered pension plan and the pension obligations are met by the Company's general revenue.

Reconciliation of funded status to accrued benefit asset

	Pension Plans		Other Benefit Plans	
	2006	2005	2006	2005
Funded status - excess (deficit) at end of period	\$ (5,238)	\$ (833)	\$ (10,522)	\$ (8,816)
Employer contributions after measurement date	—	—	—	—
Unamortized net actuarial loss	3,718	570	2,032	1,072
Accrued benefit liability	\$ (1,520)	\$ (263)	\$ (8,490)	\$ (7,744)

Pension Plan assets by asset category

	2006	2005
Equity securities	54%	50%
Debt securities	44%	44%
Cash and short-term	2%	6%
Total	100%	100%

Assumed cost trend rates have a significant effect on the amounts reported for the other benefit plans. A 1% change in assumed cost trend rates would have the following effects for 2006:

	1% Increase	1% Decrease
Total of service and interest cost	\$ 230	\$ (173)
Accrued benefit obligation	2,509	(1,921)

Notes to the Financial Statements (continued)

For the Years Ended March 31, 2006 and 2005

Note 18: Insurance and Indemnity

The Company employs a comprehensive Enterprise Risk Management (ERM) framework to identify, assess, mitigate and monitor its risk exposure. For some risks, the Company uses insurance as an effective mechanism for risk transfer.

As of April 2005, the Company was no longer indemnified by BC Hydro for losses incurred by the Company in excess of \$50 million. As a result, the Company had to secure additional coverage for excess liability in the insurance market. Overall, the Company's insurance coverage and limits are within the acceptable range of industry practices.

To date, there have been no indemnity claims made by the Company.

Note 19: Commitments and Contingencies

(a) The Company has land and buildings under capital and operating leases with BC Hydro. As well, the Company has entered into agreements with BC Hydro to purchase engineering and field services. The future minimum payments under capital and operating leases, and service agreements with BC Hydro are approximately as follows:

	Capital Leases	Operating Leases	Service Agreements
2007	\$ 614	\$ 200	\$ 73,771
2008	614	200	42,850
2009	614	145	42,850
2010	614	36	42,850
2011	614	36	34,280
2012 and subsequent years	12,665	734	51,420
Total future minimum payments	15,735	\$ 1,351	\$ 288,021
Less imputed interest	(8,689)		
Capital lease liability	\$ 7,046		
Less: current portion	(99)		
Long term portion of capital lease	\$ 6,947		

Since 2004, an agreement has been in place between BC Hydro, BCTC and Accenture Business Services (ABS) through which BCTC takes services and pays prices under the Master Services Agreement (MSA) between ABS and BC Hydro on an interim basis while the parties attempt to negotiate a separate services agreement for BCTC. An agreement was reached between BC Hydro and BCTC on the key principles and terms to split the contract. The finalization of this agreement was put on hold pending negotiations between BC Hydro and ABS on establishing a Permanent Pricing Methodology (PPM) under the Master Services Agreement (MSA). The PPM is subject to approval by the BC Hydro Board of Directors on May 26, 2006. Following approval by BC Hydro Board of the PPM, BCTC and BC Hydro will complete their negotiations with ABS for separate agreements.

The capital leases are for the Lower Mainland and South Interior Control Centres (LMCC and SICQ). The System Modernization Control Project is set to go into service in October 2008, which may affect the Lower Mainland Control Centre lease. The financial statement impact of the LMCC capital lease is not determinable at this time.

Notes to the Financial Statements (continued)

For the Years Ended March 31, 2006 and 2005

(b) The future minimum payments on the ten-year lease for Bentall office premises are approximately as follows:

\$ in thousands

2007	\$ 1,536
2008	1,536
2009	1,586
2010	1,636
2011	1,636
2012 to 2014	4,093
	<u>\$ 12,023</u>

(c) BCTC has entered into two contracts relating to the System Control Modernization Project. These include a \$14 million contract for the Energy Management System and a \$6 million contract for control centre design and engineering services to be completed by October 2008.

Financial and Operating Statistics

Financial Statistics	Unit of Measures	F2006	F2005	F2004
Revenues	\$ millions	205.3	94.8	42.3
Net Income before deferral accounts	\$ millions	21.6	3.4	0.9
Net Income	\$ millions	13.5	3.4	0.9
Total Assets	\$ millions	137.3	93.7	68.5
Total Liabilities	\$ millions	99.5	69.4	47.5
Shareholder's Equity	\$ millions	37.8	24.3	20.9
Debt	\$ millions	37.2	37.3	9.9
Total Transmission Assets under Management	\$ millions	2,479	2,489	2,618
Capital Expenditures				
Assets owned by BCTC	\$ millions	21.4	13.3	65.9
Transmission assets owned by BC Hydro	\$ millions	123.7	122.1	167.0
Actual Debt to Equity Ratio	Ratio	55.45	55.45	N/A
OMA Unit Cost/GWh-km	in cents	19.0	18.9	20.5
Operating Statistics				
BCTC SAIDI	(Hours)	2.07	2.33	2.74
Length of Transmission Lines	(Km)	18,286	18,286	18,284
Number of substations	(Number)	287	287	287
Maximum Reserve Demand ⁽¹⁾	(MW)	11,100	11,000	10,985
Peak Demand	(MW)	9,317	9,437	9,619
Point-to-Point (PTP) Sales Volume				
Long-Term	(GWh)	4,190	5,187	4,722
Short-Term	(GWh)	10,933	6,288	11,553
Transmission Rates				
Long-Term PTP (Average)	(\$/MWh)	\$ 5.88	\$ 5.74	\$ 6.01
Short-Term PTP (Average)	(\$/MWh)	\$ 4.16	\$ 3.09	\$ 2.88
Annual Network Charge	(\$ millions)	\$ 503.9	\$ 462.1	\$ 501.3
Number of Employees				
Regular		321	311	293
Temporary		19	14	1

(1) Maximum Reserve Demand is the maximum capacity supply that was used in the determination of long-term point-to-point transmission rates

Appendix A: Refining our Strategy for Fiscal 2007

Refining our Goals for Fiscal 2007

Fiscal 2007 Goal	Fiscal 2006 Goal	Explanation
Ensure reliability of development, development and delivery of a sustainable supply	Ensure reliability and security of the transmission system	This goal has been and brings balance to our primary drive to our primary customer targets and ability to deliver reliable transmission service. It also addresses the government's 2002 Energy Plan goal of low electricity rates through more efficient use of the system and secure reliable supply.
Ensure efficient use of development of the transmission system	Ensure efficient use of the transmission system	This goal now sets a direction for BCTC to be more efficient and anticipate customer requirements for service. It acknowledges the importance for developing transmission services and supports the potential for transmission growth in remote and high-risk areas, as well as ensuring reliability and efficient growth. This goal supports the 2002 Energy Plan goal of more private sector opportunities and to maximize value.
Continually improve our environmental and safety management performance	N/A	Environment is an important part of our business. This goal is a key goal, reflecting the importance of environmental and safety performance. It addresses the key safety, operational, and supports the environmental responsibility goal in the 2002 Energy Plan.
Build open and constructive relationships with First Nations and stakeholders	Maintain BC energy policy while ensuring BCTC's interests from the First Nations - maintain BCTC as a Crown-owned company, regulated by the BCUC	This goal recognizes the importance of establishing BCTC's credibility with BC and First Nations. This goal is aimed at ensuring BCTC's role in the development of a reliable and secure supply of electricity, while ensuring the interests of our customers. The goal is aligned with the 2002 Energy Plan goal of secure and reliable supply.
Build a high performance organization	Ensure the model transmission company	This goal sets new performance targets for the BCTC. It encompasses our three principles of setting high goals, being driven to achieve them and taking accountability for actions and results. A high performance organization with continual renewal and development of technical expertise directly relates to all of BCTC's goals. It also supports all of the 2002 Energy Plan goals.
Secure the highest return to our shareholders annually	N/A	This new goal addresses one of BCTC's responsibilities to our Shareholder as a Crown corporation. The financial goal is not to maximize revenues or net income, but to manage costs and risks, and deliver the anticipated annual return to our Shareholder.

Refining our Measures for Fiscal 2007

The following table outlines our new measures for Fiscal 2007. Since first reported in the Fiscal 2006/07 to 2006/07 Service Plan, our Fiscal 2007 measures have been further refined and then approved by our Board of Directors in May 2006. Changes to targets have been noted in the Report on Performance section.

Fiscal 2007 Measures	Explanation
ERC - O&M	This measure remains unchanged.
OM&O&M Fee Levels	This measure remains unchanged.
Cost time safety incidents (BCTC and Hydro BC)	BCTC will now be measuring the number of incidents that result in lost time for contractors. Lost time incidents include third contractors and BC Hydro Field Services personnel limiting their out-of-office work and not working on BCTC transmission projects. This will consolidate the two safety measures into a single measure with data collected as a percentage of two parts.
Separable commercial projects	This measure remains unchanged.
Customer Response: NPS, positive, very positive	This measure remains unchanged.
ERC/BCTC program index	This measure remains unchanged.
Load shedding	In the Service Plan, BCTC proposed adding a measure for load shedding. This measure was intended to reflect BCTC's capability to operate the transmission system in a manner that allowed more transmission capacity for customers when this need it most. In May 2006, the Board of Directors approved this as an informational measure, allowing additional historical data to be gathered prior to the measure being considered for status as a corporate performance measure.
Net Income	In the Service Plan, BCTC proposed adding a measure for Net Income. In May 2006, the Board of Directors decided that Net Income will not be added as a corporate measure because the controllable component of the measure, expenses, is captured by the OM&O&M fee measure. BCTC's has relatively little control over the revenue effects on net income because of the regulatory and tariff structure.

Appendix B: Glossary

Benchmark is a measured, "best-in-class" achievement that is used as a reference or measurement standard for comparison and is recognized as the standard of excellence for a specific business process.

Gigawatt hour (GWh) is a unit of bulk energy, one million kilowatt hours.

Interconnected System is a system which has two or more individual power systems normally operating in synchronism and having connecting tie lines.

Intertie is a transmission circuit used to tie or inter-connect two utility systems.

Kilowatt hour (KWh) is the basic unit of electric energy equal to 1 kilowatt or 1,000 watts of power used for one hour. The amount of power the customer uses is measured in kilowatt hours (KWh). A 100-watt light bulb operated for 10 hours uses 1 kWh.

Load is the total amount of electricity required to meet customer demand at any moment. The load fluctuates depending on electricity use throughout any given day.

Megawatt hour (MWh) is a unit of bulk energy, 1,000 kilowatt hours.

Open Access allows all eligible parties to use the transmission system to move power on a non-discriminatory basis.

Power is the rate at which electric energy is converted into another form, such as light, heat, or mechanical energy (or converted from another form into electric energy).

Revenue Requirement means the amount of revenues the utility needs to receive in order to cover operating expenses, pay debt service and provide a fair return on invested capital.

Transmission is the process of transporting electric energy in bulk on high-voltage lines from the generating facility to the local distribution company for delivery to retail customers.

Transmission capacity is the amount of electric power that can be transferred over the interconnected transmission system network in a reliable manner while meeting all of a set of defined system conditions.

Voltage is the force which pushes electricity through a wire (just as pressure causes water to flow in a pipe).

WECC means the Western Electricity Coordinating Council, which is one of 10 NERC regional councils.



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